CHAPTER 7

CORPORATE GOVERNANCE IN INDIAN BANKS

7.0 INTRODUCTION

India adopted a liberalized deregulated economic policy since 1990-91, and the new era of globalization of activities in respect of trade and commerce, and finance and management commenced. It has resulted into the flow of foreign investment, multinational trade, and openness of Indian market industry in a very big way. These salient features of policy stimulated the growth of Indian economy.

In banking sector there was emergence of new private sector banks, entry of new foreign banks, opening of offices of multinational financial giants. Thus the financial, banking sector, underwent sea change in India.

This has necessitated the stricter compliance of national international legislation, regulatory norms of the respective countries and there by introduction and implementation of full proof good governance policy amongst Indian financial and corporate sector to protect the interest of stakeholders, consumers, investors, and other related for development of the country.

Corporate governance in Indian banking sector is recent development of a decade as after banking reforms and Basel committee recommendations, norms of 1999 banking sector in India is subject to application of stringent guidelines and due compliance of financial parameters.

As per Basel committee recommendation banks have to display financial performance, transparency in balance sheet, profit and loss account, and compliance with other norms laid down by section 49 of corp. govn. rules.

Annual report should disclose accounting standards norms, ratios relating to profit, assets, gross NPA, movement of NPA, Investment pattern, ownership pattern, CRAR etc. Statutory Auditor has to certify compliance of corporate govn. standard by banks.

Corp. Govn. practices in a developed nation was a matter of debate because of large scale scandals as corp. govn. practices were not implemented in its true commitment, sprit as compared with developing economies.
1997 Asian crises attributed to poor corp. govn. and failure of many banks and corporate in Indonesia, South Korea, Malaysia, and Thailand. Due to weak corp. govn. practices and corruption the losses are estimated at approximately 15% of Gross domestic product [GDP] of China.

However Indian banking sector was strong enough to protect itself and absorb the shock of the effects of Asian crisis of 1997 and even U.S. recessionary period of 2008, sub prime lending episode which adversely effected the US economy and financial markets, and US. banking sector.

Corp. govn practices studies in the Indian context reveled that ‘Indian practices are more closer to an Anglo American [Anglo-Saxon] form of corporate governance. However there are different views by researchers on this model which is related to the right of shareholders, large against small investors and its exploitation by the management of the company.

7.1 GOVERNANCE IN BANKS

The effectiveness of sound banking system can be recognized by the standard of Transparency in their performance and the increased role of govt. and regulatory agencies to verify their action [as quoted by Topalove].

In India, banking sector is governed by five different acts i.e.

[1] Reserve Bank Act[RBI Act]

[2], State Bank of India Act [SBI Act],


Besides co-op banks are governed by respective

[1] State co-op society acts And


Because of different law enforcing agencies concrete principles to follow uniform corp. govn. becomes very difficult. However attempts are made to and have balance view for the practice of governance.

AGCG 2001 advisory group of corp. govn. has suggested that depositors being the principle stake holders in banks, their interest may not be always recognized. Sound corp. govn. should consider their interest and make sure that each banks should conduct their business in such a way which will not be harmful to the interest of the depositors.

The objective of govn. in banks should first be protection of depositors interest and then be to maximize the shareholders interest. The corp. govn. of banks is a complex issue due to various legislative legal framework as stated above.

The literature or research studies on corp.govn.in banks are seldom available in developed economies, it barely exists in India and other countries. However the study of select Pub sec. and Pvt. Sectors banks on the basis of annual reports of recent past, 2007-08 shows that all the banks are committed to corp.govn.

However working of Pvt. sector is fairly well as compared to Pub. sector. There is not much remarkable difference in practices of corp.govn.by Pub. sector banks and Pvt. sector banks. However degree of applicability differs. Transparency and disclosure is more in Pub. sector banks than Pvt. sector banks. However voluntary adherence to corp. govn. principles are concerned more efforts taken by Pvt. sector banks than Pub. sector banks.

Regulatory authority may enlarge the scope of mandatory disclosures by introducing additional norms to make the working more transparent for the knowledge of stake holders.

Co-operative banking sector is still at a very long distance from these principles. The success of Corporate Governance lies in the same.
7.2 MODELS OF CORPORATE GOVERNANCE

There are many different models of corp. govn. around the world. The Anglo American model, The Coordinated or multi stake holders model, with continental Europe countries i.e. Germany, Nether lands.
India’s approach is based on the Gandhian principles of trusteeship and the directive principles of constitution of India .On this basis India has adopted Anglo American model, similar objectives are also prevalent in Anglo American model of USA,UK.

Corporate governance mechanism

It is decided on outside factors like institutional stake holders, bulk, large stakeholders, acquisition activities .and inside factors like promoters, employees stakeholders, composition size of board, debt financing agencies, skilled manpower, independent directors, tenure of board, powers of CEO role of audit committee.

Measures taken by regulators towards corporate governance.

RBI has taken various steps for strengthening corp.govn.in Indian banking system. These can be broadly classified into four categories

[1]. Transparent and disclosure standard with International best practices.

[2]. On Site, Off site Surveillance.

[3]. Prompt corrective measures.


The real success of effectiveness of financial reforms will depend upon the co-op banks initiative by themselves to build the co-operative structure and stand up for their unique qualities with the elements of good governance and face the challenges and convert them into opportunities.
The standing committee on International Financial Standard and Codes (Chairman Dr Y V. Reddy) constituted the Advisory Group on “Corporate Governance” under the Chairmanship of Dr R.H. Patil.

The group studied various models of corp. govn. existing in developed and up coming countries, and emerging countries, current status of Corp.Govn.in India in Public, Private, sector companies, banks, and financial institutions vis-à-vis the internationally accepted principles, codes, and the best practice in the areas of corp. govn.

On the chapter of Corporate Governance in banks and Development Financing Institutions [DFIS] the group underlined the role of RBI as under.

As the regulatory authority of banks RBI has a special role to play in upgrading quality of Corp.Govn.in all banks including the Public Sector Banks [PSU]. Like the other central banks, RBI has been laying stress on five major aspects of governance in banks which are briefly described as CAMEL, meaning thereby Capital Adequacy, Asset Quality, Management Earning, and Liquidity.

One can argue that the principals of good Corp. Govn. are embedded in one of the five factors viz. Management. But this term alone does not convey the full meaning of what is defined to be good. Govn.

In the light of the OECD principals, the Basel committee on Banking and Supervision of the Bank for international settlement [BIS] has issued a frame work of good Corp. Govn. for banks. It has endorsed almost all the major recommendation contained in the OECD principles in addition to three important committee viz. audit, nomination, compensation [remuneration] committee.

The BIS committee in favor of one more committee called Risk Management committee which covers interest rate, credit, operational risk effective internal control system, which are very crucial for banking business.

The Basel committee has laid down emphasis on banks having clear strategies for their operation and establishing accountability for executing them. It is also in favor of high degree of transparency and disclosure of information which should enable others to judge management
quality of the bank. Given the fact that banks and financial failure would pose grave risk to the entire financial system.

Corporate gov.n. system should have too much tighter in banks and financial institution. Although RBI maintains a tight vigil and inspection at regular intervals the quality of corp. gov.n mechanism does not appear to be satisfactory. One of the major factor that directly affects the quality corp.govn.is

[1]. Govt. ownership-Govt.is the major stake holder in PSU banks.


[3] Another major problem is representation given to the various interest groups on the board of Bank.

As it is observed that most of the nominations representing sectional group behave in favor of their own narrow interest and board do not function in a healthy manner to lead healthy balance of interest of the shareholders, stakeholders ,this is more particularly with private sector banks.

Therefore major reform is needed in the area of constitution, restructuring of boards of the banks. Transfer of chairmen, executive directors to the other better bigger banks on seniority basis should be discontinued. Appointment of independent professional director of the board of other companies on the bank. Remuneration levels, compensation packages to attract full time directors, professionals, executives, to the senior post, depending upon the size of the bank,
complexity of problems facing individual banks and their performance and profitability level. It concluded with the statement that special attention needs to be given to improving the quality of governance in the public sector banks and financial institutions where Govt. and RBI has major role to play.

In one of the survey report on governance in Indian banking sector bank executives measured highest score on following points.

[1] Indicating transparency in financial statements, regulatory compliance and ethical business practices.


[8] Effective role of audit committee to prevent irregularities.

[9] Efforts to achieve maximum effectiveness in governance.

7.4 HURDLES FOR GOOD GOVERNANCE IN INDIAN BANKING SECTOR IN GENERAL

In the nutshell following are some of the hurdles for implementation of good governance practices in Indian banking sector.


[3] Mix business of banking sector with the formation of associated companies to undertake other financial activities services such as housing, investment, insurance, mutual fund business etc.

[4] Composition of board, stakeholders, shareholding, ownership, representation to the board such as depositor director, non executive director, nominee director, workman representative.

[5] Appointment reappointment, selection criteria and political interest, interference at board Level, senior level.


7.5 GOVERNANCE /PROFESSIONALISM IN CO-OP BANKING RELATED ISSUES

As discussed earlier this area came into sharp focus due to failure of co-op banks both rural and urban, scheduled, non scheduled and multi state co-operative due to financial crisis on account of mismanagement, scam and cascading effect on other cooperative sectors of India particularly in Gujarat, Maharashtra, Karnataka Andhra Pradesh supposed to be strong hold of cooperatives in
India. There are few small countless banks in various regions of India which also failed due to overall mismanagement of the affairs of the bank.

This has resulted into loss of creditability of co-op banks sectors in the eyes of general public, depositors, shareholders, members and shaken the confidence of the depositors and run on deposits.

This has proved that governance level in the co-op banking sector is at poor level. Soto say that in spite of various preventive measures, financial package support, moratorium, directives, government interference, regulators could not save the further downfall or pull these banks out of red and improve the position of banks at comfortable level.

There was no other alternative before the regulator either to liquidate, cancellation of banking licenses or to adopt the policy of merger/amalgamation of such banks with financially strong/sound banks.

To illustrate the merger of Memon co-op bank with Bank of Baroda, Suvarna co-op bank with Indian Overseas bank, Mandavi co-op bank, South Indian co-op bank with Saraswat co-op bank and few others with Abhyudaya co-op bank, Cosmos co-op bank, North Kanara, Gaud Saraswat co-op bank [NKGSB] Shamrao Vitthal co-op bank [SVC] banks etc.

RBI framed the suitable merger policy for takeover of financially weak co-operatives banks by public sector banks to protect the interest of depositors. This is indirect kind of financial support by govt. for strengthening the sector.

RBI has identified the following major concerns about the UCBs in its report on trend and progress of banking in India 2001-02.

1. High level loan delinquency.

2. Erosion of capital/net worth.

3. Constraints of funds for recycling.

4. Unevenly treasury management and resultant dependence on other agencies.

5. Lack of professionalism in management.
6. Conflicting groups, lack of harmony and bitterness amongst the members at board level

7. Lack of internal control system, governance structure

8. Non-adherence of regulatory norms.

9. Lack of effective supervision and regulatory mechanism, coordination.

10. Multiplicity of regulatory, dual control

Role of governance in mitigating the problems in UCBs has been recognized as very important since 2000-01 as many co-op banks failed or faced serious problems as stated above. Members [shareholders] depositors, employees, auditors and community are primarily five stakeholders of UCBs. Majority stakeholders hail from small middle class people and have to support their needs as its primary objective of the co-op principle.

As per the statutory provisions only the members can avail the loan i.e. borrower has to be admitted as a member of the bank by buying minimum prescribed share capital. Due to this linkage of capital with borrowing limit all the borrowers have significant say in the management of the bank so to say that they control and influence the management for decision process where as the interest of the other shareholders is not protected.

Shares of the co-op banks are not listed in stock markets and hence no trading is done. Member has right to withdraw the capital after specified period which shrink the capital base. Value of share has no relevance with the performance of the bank except getting the dividend, so huge amount is in the form of dividend pay-out instead of ploughing back of profit in business leading to financial crunch. Decision making power in co-op banks are mostly concentrated in few hands at the top level.

Co-op field is controlled by political people or banks are affiliated to political parties or their associated groups. So decisions are more or less with political motive and banks funds are used for political gains by way of advances to unscrupulous activities, advances to directors families, relatives.
Lack of professionalism at board and senior management level is one of the key reasons as it leads to unprofessional approach in decision-making process. At board level, key persons control the board meetings and decisions are not truly in unanimous nature.

In co-op banks, directors have also formed conflicting groups resulting in lack of harmony and bitterness among the members of the board. Failure on the part of the board to function as a homogeneous unit creates difficulty for the CEO and other senior officials to perform efficiently in accordance with the norms prescribed by RBI, Government, Registrar, and other regulatory authorities.

The Public sector banks, which are owned and controlled by government, co-op banks are run by elected members on democratic principles of ‘one vote one person’. The emergence of co-op banks was initially on small means by forming a credit society by the community. People with the sole purpose to serve the community and welfare. Therefore, many co-op banks are named after their religion, community, but slowly gradually these banks grown in tremendous ways conflicting the interest of original promoters and others differing the principles of governance.

### 7.6 COMMITTEES ON CORPORATE GOVERNANCE IN BANKS

The following committees were appointed for recommendation on subject matter.

1. R.H. Patil Advisory group [2001]
2. M.S. Verma Advisory group
3. Dr. A.S. Ganguly consultative group of director for financial supervision [2002]
4. Basel committee on banking supervision and accountability [1999]
5. Kumar Mangalam Birla committee by SEBI [1999]
6. Task Force on corporate governance by govt. of India [2000]
7. Naresh Chandra committee –II on regulation of pvt. companies and partnership. By govt. of India [2003]

8. Narayan Murthy committee by SEBI. [2003]

9. Malegam committee. for disclosure norms for public issue by SEBI [2004]

10. CII code of conduct committee by RBI [2004]

All these committees strongly recommended the aspects related to function of banking industry such as appointment, reappointment of board members, accountability, responsibility, internal risk control system, transparency in working, disclosure of standard of accounting principles, supervisory role with aim to protect the interest of stake holders, depositors, investors and public at large.

RBI has shoulder greater responsibility for initiating and framing the policy of governance for banks on the basis of OPCD principles and Basel recommendations. Standing committee on International financial standard and codes set up in1999 to adopt uniform financial standards and codes on the lines of international accounting standard.

The RBI group suggested improvement in governance of public sector banks by switching over administrative powers for ministry to the bank board, appointment of various board committees such as audit, risk, remuneration etc.

Ganguly committee looked into the areas like compliance of regulatory norms, disclosures, transparency in reports and measures for more effective role of board of directors. RBI has initiated certain steps in the banking system such can be broadly classified as under.

1. Transparency in reporting.

2. Off site surveillance report.

4. Preventive measures.

RBI studies the comparative performance of peer group banks and confidentially circulate the data amongst these banks which creates the pressure to improve the performance and governance and initiate corrective measures.

It may be noted the governance in banks was in formative stage till 2002 and majority suggestions were implemented after 2002 however the position has improved after legislative changes by govt. In spite of this some of the private sector banks failed due to financial irregularities and regulatory lapses by the management of banks.

Pre requisites of good governance largely depends on effective and efficient functioning of board of directors, senior executives, management team employees, shareholders which constitute pillars of any financial institution including banks.

In respect of cooperatives banks though separate committee is not set up to study the prevailing governance practices followed and recommendations and measures for improving the corporate governance RBI being regulatory authority expects that cooperatives should adopt good governance practices on the basis of recommendation made by the above committees, study group.

As the identity of cooperatives is distinct from the corporate the governance should adhere cooperative principles, democratic functioning, cooperative philosophy.

RBI has entered into memorandum of understanding [MOU] with state governments to streamline the working of weak banks. RBI has made applicable various accounting standards, disclosure norms, appointment of professional directors, formation of board sub committees such as audit, ALCO, Investment etc. which are explained in the following chapter.

Co-operative banks are now offering core banking enabled techno based services and various non banking services such as selling of Insurance products, mutual funds, credit, debit cards, pan card, ATM, demat, E-Tax payments, ECS RTES, NEFT, Aadhar enabled accounts etc. These services are regulated by respective legislative act, policies by related authorities such as IRDA, SEBI, NPCI, IT, UIDA. whereas banking operation are regulated as per B. R. Act. and administration as per co-op society act.

Co-op banking sector has exposed to greater risk than the earlier periods on account of various regulatory authorities as stated above and has to comply strictly the regulatory norms to mitigate
various risks. Therefore corporate governance is a very complex situation due to lack of professional management, expertise officials, while conducting the affairs of the banks.

7.7 ROLE OF GOVERNMENT AND THE REGULATOR

Central and State government as well as RBI has initiated several steps in recent times to enhance good governance in co-op banks.

Central level

The central govt. had appointed Shivajirao Patil committee to suggest changes in the Model Byelaws of the co-op banks and advised all state governments to adopt these model bye laws with necessary amendments in respective state cooperative societies act by February 2013. Central committee prepared model bye laws of National level co-op scy, Federal co-op scy and multistate co-op scy, including banks. Some of the main features related to governance are as under

[A] Annual general meeting powers and functions of General Body[ section27]
Formulation of code of conduct for the members of the board and officers,[P]

[B] Board of directors.
Two subject matter specialists may be invited by the board in any of it’s meeting.[V]

Maharashtra government appointed a committee under the Registrar of co-op societies Shri Dinesh Ovalkar who completed the work of Model Byelaws. The committee incorporated recommendations of Patil committee.

State Level

The Registrar had made several recommendations for the amendment of the model bye-laws to make it more transparent in respect of ‘Board of Directors ’their appointments, election
composition of board, minimum qualification for director, deposit holder representation various means to increase capital base, delegation of powers, the role of the CEO, and other administrative matters related to the management of the bank.

Similarly for the stakeholders their voting rights into active and non active members, minimum and maximum share holding, share linking with borrowing and eliminate the political control.

Model Bye laws of primary urban co-op banks—Amendments in co-op scty. act.
The following new clauses are inserted.

Board of director
Bank may co-op two directors from active members of the bank with suitable banking experience from middle management of any bank for the minimum period of ten years or having relevant professional qualifications such as CA/ICWA/CAIIB/MBA/Banking &Finance/Law graduate/Economist or expertise faculty in banking areas. Or with the experience of minimum 10 years in Middle/Senior/Top level management.[This is as per RBI circular no.pcb/cir dt. 5/4/2002]

Employees participation in the management decision making process.
The bank shall frame the system and procedures through administrative guidelines for the employees participation in the management decision making process. through their association, union.

Educational course for members.
The bank shall organize educational programmes on cooperation for it’s shareholders, depositors directors ,and employees and the bank will create a separate fund from the profit for this activity.

Expect Director means a person having experience in the field of banking ,management, finance, and includes a person having specialization in any other field relating to the objects and activities undertaken by concerned society.

.
**Functional Director** means a managing director or a chief executive officer by whatever designation called and includes any head of the department of the concerned society, nominated by the committee.

**Active member** means one who participates in the affairs of the society and utilize the minimum level of services or products of that society as may be specified in the byelaws.

Every society shall organize co-operative education and training for it’s members, officers and employees through such state federal societies or state apex training institute as the state government may by notifications in the official gazette. Such educational training shall

1. Ensure the effective and active participation of the members in the management of the society.

2. Groom talented employees for leadership position.

3. Develop professional skill through cooperative education and training.

It shall be the duty of every member of the society.

[a] To attend at least one of the general body meeting within a consecutive period of five years.

[b] To utilize minimum level of services at least once in a period of five consecutive years as specified in the bye laws of the society.

**R B I Level**

The Reserve Bank made it mandatory for appointment of professional directors,(specialized in banking and accounting), do’s and don’ts for members of the board, disclosure norms in the balance sheet, loans to directors, and relatives, prohibition of advances to director and their related groups. Transparency in respect of revision in deposit interest rates, lending rates, service charges, customer grievances mechanism by appointing nodal officer of senior level.
Disclosure also includes the financial parameters, ratios, movement of NPA, transparent accounting standard for publication of Balance sheet and Profit & Loss account. Critical comments/observations of auditor on financial position, audit classification, serious irregularities reported during RBI inspection etc.

RBI has also signed MOU with various state governments for forming task force (TAFCUB) to deal with the rehabilitation of weak banks, merger, amalgamation, acquisition proposal, financial packages etc.

RBI has made mandatory to form various committees of board namely ALCO, Investment, Audit, Risk, NPA management, etc. and holding of its meetings at regular interval.

An illustrative list of Calendar of Reviews – Matters to be placed before board of directors at periodical intervals, its periodicity on important aspects of banks working.

Holding of board and committee meetings regularly, members attendance regularly and effectively, proper noting of the proceeding of the meetings, and publish the details of meeting and members attendance in annual report.

RBI is also conducting various training programs on policy matters for the directors to improve and update the knowledge of the board members.

Management, co-operation, training to directors are the part of CAMELS rating for grading of the banks. In case of violation of RBI directives, penalty is imposed or action is initiated against the bank and its board members and same is displayed on public domain by press release and bank has also to be reported in their annual report.

Prescribed eligibility norms, fit and proper criteria for appointment of CEO of UCBs.

Best practices in well managed urban co-op banks.[RBI circular dt.28/5/13]

Under system of reporting to board of directors and professionalism of management RBI has advised appointment of a senior officer as secretary to the board, and making him responsible for handling the bank’s board and sub committee related affairs including preparation of agenda and minutes as also follow up on the decision undertaken i.e. action taken report.[ATR].
7.8 Role of Board of directors and corporate governance

Objective/Introduction

Board of directors of co-op bank decide the policies of the bank and hence their role is very important. Board is the next final authority after the general body. Board is vested with the powers to decide administrative and business policies of the bank and its implementation through the executive management of the bank. Board is responsible for giving direction and providing leadership and do the business within policy framework.

While deciding the policy board has to adhere the guidelines, norms, issued by regulators i.e. R,B.I Registrar from time to time. and see that such regulatory instructions are not violated by the bank. Therefore role of board is very important either for the progress or down fall of the bank.

Role of directors.

Indian economy adopted the process of transformation from the regulated and closed economic system to deregulated and open and globally net work economy. This transformation brought sea changes in financial sectors including banking sector. These are known as Financial sector reforms. These deregulation and its supportive legislative changes made a way for lot of operational freedom to the organization.

Though this freedom was a welcome move it posed a sudden challenges before the management to take crucial and fundamental decision by own in the absence of earlier role of merely obeying the regulators instructions. Here the boards judgment to deal with the policy matters was very important to conduct the business.

Earlier the bank management were used to look upward i.e..regulator and government decisions and adopt wait and watch policy. However this has changed to take your own decisions deemed fit for the business. As there was no precedence to follow in the new situation in which the management were placed into. Even many well established bank management felt paralytic in the absence of regulatory control.
This posed a biggest challenges before the board of co-op banks. One of the reason was lack of expertise, professionalism at board of directors level. These challenges were opportunity to some those boards who understood their role as a director of the co-op bank met with opportunities and those who failed to understand either failed temporarily or permanently. It created do or die situation before board of the co-op banks.

The new economic governance system was more related to adopt changed, innovative, bold policies rather than to maintain or stick to status quo in business strategies. Therefore the banks which resisted to adopt new changes were thrown out of race.

The operational freedom put considerable responsibility on the bank board to take decisions. It brought the need of self discipline and self regulation. While giving operational freedom the regulator set certain financial parameters and monitor these parameters strictly. Any violation, breach of these parameters were attracted financial penalties imposing directive norms including fixing of accountability of board of directors of the bank. This imposes the role of directors a responsible task while managing the affairs of the bank.

The board of directors must keep in mind the following points while understanding their role.

1. To respond the changes on continuous basis.

2. To adopt modern technology tools to support business growth to face competition.

3. Transparent decision making process.

4. To adopt professional management to face competition and implementation of technology.

5. Proper co ordination, and clearly defined role between board and professional management to achieve the set objectives, growth of the bank.

6. To restore public faith, trust of depositors, stakeholders.

7. Improvement in customer services with new innovated services by adopting new technology.
8. Creative expertise in some of the important areas like treasury, investment, information technology, credit appraisal, credit monitoring, risk management, audit system control, NPA control.

Board of directors holds a crucial position in the organization structure of the bank. Therefore combined efforts of board gets the strength and efficiency to the organization and survival of the organization depends upon the ability of the board to draw and implement feasible and profitable business plans and strategies.

Board carries heavy responsibility for giving directions, deciding policy of the conducting the affairs in profitable and healthy manners keeping in view the socio economic obligation. Protecting interest of various groups attached i.e. depositors, shareholders, borrowers, employees, trade union, and professionals.

They need to plan, control and utilize recourses i.e. human and physical of the bank to maximize the efficiency, profitability, productivity, balanced, organized growth with good team work of professional experience, knowledge, and foresight.

Unbalanced, disorganized, static, non decisive, shortsighted, and corrupt board will lead the bank towards downfall, crisis, and liquidation. Professionalism plays to offer quality, clean oriented services.

It is generally experienced that in co-op banking sector bad board not only ruin one bank to it gives harsh punch to the entire sector. Every director should keep in mind that any single failure of the bank seriously happens the public confidence and trust of the sector as a whole. Groupism, cracks, political interference in the working of board badly effects the operational working courage, ability of the bank executives, officers. It seriously affects the growth of the bank.

The board members are individually and collectively responsible for increase the morale of the officers, maintain quality and expertise staff and also to create career path for their employees. The board should draft vision and mission policy with long term perspective and its implementation from timely and judicious decision.

Getting good qualified executive is a rare thing for co-op banks. Either they do not join services of badly managed banks or they move out if in services. It makes the situation from bad to worst. Board should keep in mind failure function as homogenous unit creates difficulties for the chief executive officer directly and also his executive, officer team working under him indirectly.
Single man dominating the board decisions, egoism, personal clashes, groupism, affects badly the performance of the directors.

The board should always maintain its image and functionality as a powerful top management identity, entity. Attendance of meeting is not just merely for the sake of routine and head count for quorum.

The directors should study and understand the agenda notes, matters to be discussed before board. Director should take active part in decision making process. The quality of interaction should be improved to devise the plan and policies for smooth functioning of the bank.

The directors should follow following points broadly as rules.

1. Good working, transparent relationship between managing director, chief executive officer, general manager executive team of the bank.

2. Informal discussion on the working of the bank with fellow members and senior executives to learn new things for short duration.

3. Main function of board of director is to provide customer service, provide them good products similarly good returns on shareholders holdings.

4. The board meeting agenda should be properly discussed with careful study of information. Not understanding the information should not be part of hesitation for asking more. Additional contribution on the subject should be with proper study, presentation, reasoning.

   Even opposition for any agenda item should be with proper study reasoning and presentation and constructive in nature. Once director placed his views either positive, negative on the agenda subject the decision should be left to the board for the consensus decision of the board in democratic way.

5. Director should take active participation in the business transactions and decision making process.
6. Board has to ensure smooth management of the day to day working through the management team, timely direction and effective implementation of bank’s strategy. At any cost executive management should not be disturbed at any level. Board should step in to restore the confidence.

7. Board members should maintain mutual trust and respect for fellow board members and executives. They should act as a friend, philosopher, and guide. As a reviewing authority they should not act as court of enquiry with criticism, but should take a fair view even in respect of employees related matters.

8. Board of directors should keep in mind they are the governing body of bank where as managing director, chief executive officer, general managers, deputy general managers are team for implementation.

9. Though board sets out the strategic policy it is their responsibility to take review of the decisions from the executives before the board for sound and effective strategy for the bank.

10. Board should informally, carefully, study and review the economic, monetary, government, regulatory policies, banking environment. Similarly social, political, geographical matter and analysis its impact on the business of the bank. However safety of depositors, stakeholders should be the top most priority.

11. Directors should not impose his views, or insist his suggestion beyond certain limits of democratic way functioning of the board though they may be beneficial. Sharing of experience, ideas, with fellow members is important.

12. Recruitment of right personnel at right place, training to employees at all levels, experienced and qualified talented human resources is the valuable assets of the bank. Human resource development is equally important for the growth of business.

13. Board of directors should ensure long term survival and welfare of the bank with effective implementation of development plans.
These points should be remembered by the directors as the success and failure of the bank depends on the knowledge, judgment, business decisions opportunity.

In the present context the co-op banking sector is facing stiff competition from others in the banking industry in which the board should function as an effective body and should have growth and profitability on the top priority.

The directors should keep themselves update with latest news in areas of finance, management, I.T., economy, banking and human resource development. They should attend various training programme, workshop, read banking journals, periodicals. They should learn from past mistakes and lost opportunities.

They should enlarge their mind to learn and follow various new concepts Business process re-engineering [BPR], KAZEN, [continuous improvement process], Total quality management [TQM], Quality circles [QC], Management by objectives [MBO], Zero defect service delivery etc.

These activities not only keep directors individually upgrading their knowledge and efficiency but board collectively and bank as a whole which results in healthy progress of the bank. Vision and mission policy of the bank can be accomplished when all the directors work in right direction, collectively.

As per R.B.I all the circulars, guidelines, issued by RBI, Govt. Registrar relating to regulatory policy matters should be placed before the board for suitable action and it should be seen by every member of the board.

Reserve bank observed that financial scams financial crises, failure of banks, going to weak, sick category is on account of defective policy decision particularly in respect of loans and advances, investment, lending procedure, recovery action.

This observation is based on the interaction of RBI officials during inspection of the bank and trend analysis of cooperative movement. The main source of information is annual RBI inspection of banks and conclusion in the form of inspection, audit reports.

It is therefore essential for board of directors to ensure that proper policies for loan, investment, NPA recovery I.T. are in place in the lines of RBI circulars and guidelines, proper system and control, audit to minimize the risk of banking transactions.
RBI also expects that co-op banks board should function in cohesive manner and provide proper leadership as it is observed that crisis at board level are primary responsible for collapse of banks.

The RBI has also came out with master circular on Do’s and Don’ts’ For board of directors with the expectation about the role of directors.

The gist of circular is as under.

**DO’S**
1. Work in the spirit of cooperation after the board meeting.

2. Study the board papers and any additional information should be obtained from chief executive officer.

3. Board papers and follow up reports should be obtained from chairman within time schedule.

4. Involvement as a director thoroughly in formulation of policy and ensure bank performance at board level.

5. To become familiar with Govt. ,RBI policy with the objective of the bank.

6. Work as a team member and not sponsor or prejudiced mind against individual proposal.

7. Director should pay attention on the following factors
   a. Compliance with monetary and credit policies of RBI, Registrar Govt.
   b. Maintainces of CRR, SLR.
   c. Profitable investment of funds ,treasury management.
d. Deployment of funds to priority sector lending

 e. Observance of RBI guidelines of advances to directors and their relatives strictly.

 f. Recovery of over dues, compliance of NPA classification ,provisions.

 g. Redressal of customer grievances mechanism. to improve customer services.

 h. Action on RBI inspection observations and audit reports of concurrent ,statutory auditors.

 i. Development of management information system [MIS]

 j. Vigilance system on frauds, misappropriation ,irregularities. by employees.

 k. Strengthening of internal control system.

 l. Housekeeping of various books of accounts ,periodical reconciliation.

 m. Development of information and technological services.

 DON’TS

 1. Director should not issue any direct instructions to employee, officer or any direction in any manner.

 2. Directors should not involve them in administrative matters ,personnel, appointment, transfer ,promotion ,posting ,or redress individual grievances of any employee.

 3. Director should not interfere in day to day working of the bank.
4. Director should not influence for sanction of any kind of credit facility from any official, br. manager.

5. Director should not participate in board discussion in which he is directly and indirectly interested. On the contrary, he should disclose his interest in advance to the chief executive officer and board.

6. Observe strict confidentiality about information relating to bank. Under oath of secrecy and fidelity not to reveal to outsiders.

7. Directors should discourage individual employee, officer, union member approaching him in any manner.

8. Bank logo or distinctive design of the bank should not be displayed on visiting card/letterhead.

9. Directors should not directly call papers, files, notes recorded by various deptt. In respect of board agenda items to be discussed in the meeting. All information, clarification should be obtained from executives.

10. Director should ensure and maintain confidentiality of the bank’s agenda papers, notes. Directors should not part away with board papers. They should return papers after the meeting.

11. Do not sponsor any loan proposal, building, and sites for bank premises, empanelment of contractors, architects, lawyers, valuers.

12. Do not sponsor any candidate for recruitment or promotion or interfere in selection process, transfer, promotion, of employees or any thing which will adverse to the maintain of discipline, good conduct, and integrity of employees.
13. Deployments of funds in proper and judicious manner to improve the profitability of the bank. Sanction of loans and advances strictly as per adhering the lending norms of RBI, disbursement of advances by following procedure, documentation, creating charge on security.

14. RBI has prescribed various disclosure returns at regular intervals for co-op banks to assess their performance and advised to submit these on due dates. The details are as under.

[1] Asset & liability management -
- statement of interest rate sensitivity: Quarterly
- statement of structural liquidity

[2] Directives
- Annual NPA audited/unaudited: March
- Daily call & notice money: Fortnight
- Loans & advances to directors: Quarterly
- And their relatives:

[3] Frauds
- Actual report: Date of fraud
- Report on fraud outstanding: Quarterly
- Progress report on large value frauds: do
- Report on dacoities/robberies/theft/burglaries: do

[4] Licensing
- Statement of offices in India: do

[5] OSS
- Statement assets & liabilities, earnings: Quarterly/
- Asset quality, NPA, large exposures: March
- Segment-wise advances: do
- NDTL/NOF Ratio:
- Bank profit unaudited/audited: March

[6] Planning
- Loans/advances to priority sector
- Weaker sector/minority community: March/September

[7] Rehabilitation
- Annual financial review: March
- Quarterly progress report: Quarterly

[8] Returns
- Balance sheet items: March
- Compliance statement of
CRR/SLR. do
Unsecured loans/advances to directors do
Firms of their interest, unclaimed deposits December
Over 10 years,
Assets & liabilities of last Friday and Monthly
As of 31st March March
Monetary aggregates Monthly

Non-submission of these returns on due dates attracts penal action against bank by RBI.