CHAPTER 11

FINDINGS, CONCLUSION

11.0 The findings of research study on "Confronting challenges of co-op banking sector by strengthening through good governance, management" with the main aim to analyze the present status of corporate governance in co-op banking sector on the background of governance practices followed in Indian banking sector with following specific objectives.

1. The consequences of failure of corporate governance, professionalism in management in co-op banking sector.

2. The need and measures for strengthening it for improvement of the sector.

On analyzing the primary and secondary research, the research study found some important results which are submitted in respective chapter. In nutshell conclusions are as under.

GOVERNANCE PRACTICES FOLLOWED IN INDIAN BANKING SECTOR

[1] The corporate governance practices in the Indian banking sector have been effective to some extent in achieving their set goals and objectives but there is still scope for further improvements with more working disclosures and transparency in the reports.

[2] Corporate governance practices in Indian banking sector is though improved but it is still in secondary stage as compared with developed countries of the world.

[3] Literature on the corporate governance practices followed in Indian banks is very scare as compared to developed nations where it is studied in depth with reference to model, it success failures and role of regulators, govts and stakeholders.
In terms of listing agreement, clause no 49 SEBI the banks and financial institutions whose stocks, securities are listed with BSE, NSE it is mandatory requirement to have corporate governance policy and statutory obligation to publish it through annual reports.

SEBI guidelines has made certain mandatory and non mandatory disclosures for publication in annual reports along with the disclosures of RBI and under provisions of the Companies act.

Because of the above measures (4 and 5) Commercial banks have framed the Corporate Governance Philosophy, Code of ethics, for Board of Directors and Sr. Management, and publish the same in their annual reports.

Contents and disclosures in annual reports by Pub. Sector banks are informative, transparent, with all statutory disclosures as prescribed by SEBI, RBI, and Company act.

Reporting and disclosures in annual reports by Pvt. Sector banks has edge over the others particularly in respect non mandatory/ voluntary disclosures on the performance of the bank.

Reports contains the profile of the members of board, name, age, educational, professional qualifications, experience, expertise, in the field and any office of profit or interest of directors held in other company etc. is disclosed.

Constitution of various sub committees of board its scope, functions, no of meetings held, attendance of members to meetings, and its decisions are disclosed.

Approach to take into confidence to all the stake holders, investors for adoption of resolutions in the annual general meeting.

Auditors certificate on the compliance of corporate governance by and code of ethics by Sr. management is published.
This has resulted into corp. govn. practices, procedures applied in Indian banking sector to certain extent effective though it was started in late 1990s. Even though all the international code of corp. govn. principles are not completely followed CII code and mandatory clauses 49 of listing agreement of SEBI are followed to enhance good governance.

However failure of Global Trust Bank (GTB), financial irregularities in Bank of Karad, United Western Bank Satara, ownership stake and control issues by families in Bank of Rajasthan, violation of regulatory norms on loans and advances by new generation banks like Bank of Punjab and few others brings the darker side of governance practiced and role of RBI to supervise and monitor the functioning of Management of these banks.

In view of the above it is essential to attribute significant importance to qualitative standards of governance such as check and balances, internal control, and risk management strategy, disclosure standard and more transparency in reporting to stakeholders to prevent financial scams.

The board of public sector banks and private sector banks were not made accountable for the financial irregularities in the bank. No enquiries are conducted against directors involved in the scam where as executives, managers are made accountable and liable for disciplinary action and severe punishment is awarded.

11.1. SUGGESTIONS- SCOPE OF DISCLOSURE

[1] Deployment of banks fund by way of loans and advances is main area of concerns. Effective credit monitoring is required not only to prevent the slippage of assets quality, but to prevent the strain on banks earning, profitability, as NPA requires provisioning out of profit of the bank. Though management, board committees of the banks takes review of asset quality of the bank annual report should contain additional disclosures on this areas of concern as high percentage of NPAs has crippled the banking, economic growth of the country.

It is suggested that banks should disclose about their corporate advances policy, group exposure, asset quality of associated companies, consortium lending to business houses, risk weight associated to such advances by bank. similarly the position of restructured advances, legal action initiated for recovery, pending litigations with DRT. And segment wise percentage of NPA of advances.
Many corporate are involved in money laundering cases. Though anti money laundering mechanism is in place in banking sector and reporting of suspicious, cash transactions reports to FIUINDIA New Delhi banks failed to curb these activities by way of either diversion of funds or use of banking channel against the national interest.

Satyam Computers, 2 G Spectrum, Coalgate and many more such scams where there was nexus of politicians and corporate world. Banks were lender for corporate by ways of funded and non funded finance, bank guarantee, financial accommodation for securing contracts, bides, auction process. Huge financial crunch of King Fisher Airlines and turning of advances in to loss assets has adversely affected the quarterly results of SBI and other banks and stake holders.

RBI Dy. Governor K. C. Chakrabarty made following statement while addressing in ASSOCHAM event in New Delhi on 21st November 2012.

"The corporate sector is responsible for a major part of the rising bad loans causing inconvenience to honest borrowers. NPA (non performing assets) is a creation of corporate sector......you borrow from the banks and you don't pay in time. They become NPAs in the books of the banks."

Mr. Chakrabarty further said that there is a need for good governance and good growth in India. We are all victims of 2G, Growth, and Governance........

It may be noted that regulatory authority strongly endorsed my above stated views on corporate disclosure and its importance for economic growth of the country.

It is therefore suggested that banks should have specific disclosures on such cases which is widely discussed in media, press and on political fronts. The banks has to develop their own in house system to supplement the regulatory supervisory system.

SEBI, RBI should tighten the disclosures norms further in view of various financial scams that has rocked the country and national interest of the stakeholders. RBI has to play more effective role for implementation of recommendations of various committees on corporate governance.

Indian stake holders have to play a equally effective role by forming a strong forum and raise their voice to protect their interest on the non disclosers of certain facts by banks in their reports.
11.2 STATUS OF CORPORATE GOVERNANCE IN CO-OP BANKING SECTOR

[1] Corporate governance philosophy, practice is not framed, and governance practices are not followed and even if is not disclosed in the annual reports irrespective of status of the bank [primary, scheduled, multistate], volume of business size, multistate operations. As it is not the mandatory provision by regulatory authorities.

[2] Code of conduct for board of directors, senior management is not framed and even if so not disclosed in annual reports irrespective of the status of the bank [primary, scheduled, multistate] volume of business size, multi state operations. As it is not the mandatory provisions by regulatory authorities.

[3] The text of annual reports are typically framed, contents of reports are more of a routine nature without any depth of factual, fair, transparent reporting about the working affairs, performance of the bank.

[4] Annual reports of many banks does not have a single line on the corporate governance practices followed by banks and few banks statement is very limited extent covering the meetings.

[5] Means of communications to stakeholders is not developed it is limited and restricted to annual report. websites are not updated.

[6] Various accounting disclosures as specified by RBI, and adherence of accounting standard principles as issued by ICAI are generally followed due to mandatory provisions but with qualifying remarks by statutory auditor.

[7] Duality of control, lack of good governance practices, ethics, and professional management are attributed for mismanagement, failure of co-op banks and hurdles for main hurdles for the growth of the sector.
[8] It may be mentioned here that one or two co-op banks have voluntarily taken initiative towards adoption of governance policy, code of conduct for board and management.

[9] Level of governance and disclosure in the co-op banking sector is below average as compared with public, private sector banks.

[10] Cooperatives are lagging behind in respect of effective participation by stakeholders in working of the bank.

[11] Lack of professionalism in management is one of the areas of major concern identified by RBI. At present it is not at comfortable level.

11.3 CONSEQUENCES OF FAILURE OF GOVERNANCE, PROFESSIONAL MANAGEMENT

[1] In the year 1988-89 RBI awarded ‘Scheduled Status’ to 11 primary well managed UCBs by inclusion in the II nd schedule of RBI Act 1934 upgrading functions of such banks at par with commercial banks. These banks were expected to perform with more accountability and responsibility in terms of carrying out business of the bank. Similarly few large scheduled banks spread their wings across the boundaries of the state by attaining Multi State status under registration of Multi State co-op act. As of 31/3/2013 out of 1606 co-op banks there are 43 multi state banks and 55 scheduled co-op banks.

As of 31/3/2013, 111 UCBs got merged with other good banks under merger, acquisition policy of RBI. These banks were having negative net worth, accumulated huge losses, high NPA, erosion of assets, capital, involved in fraud, misappropriation, financial scams, action against the board by registrar, supersession of board, appointment of administrator, banks under RBI directives etc. Over 10 to 12 are unviable UCBs.

[2] It was observed that functioning of scheduled urban co-op banks received a big jolt due to collapse of large scheduled banks in Gujarat and Maharashtra. i.e. Madhavapura Mercantile co-

op bank ltd, Ahmadabad co-op bank ltd, Rupee co-op bank ltd, Charminar co-op bank ltd. and others like Visanagar Nagarik Sahakari Bank Ltd, Krishi co-op bank, Suvarna Sahakari Bank. Recently Pen urban co-op bank, and such others.

In spite of statutory audit by state Registrar, regular on site and off site inspection by RBI, and it was felt that all is not well with Urban bank sector as it appears from the routine reports. Over the years many medium and small size banks failed due to cascading effects as these banks were stake holder in various forms such as clearing, remittance facilities, funded and non funded accommodation on behalf of their constituents, placement of call deposits etc. with the banks which were collapsed.

Business cliental of different states also suffered due multi state bank operations. There were run on the banks from the depositors for withdrawal of deposits. Many depositors lost their hard earned money as many bank did not renew insurance with DICGC, and hence depositors claims could not be settled.

This has resulted into loss of creditability of co-op banking sector in the eyes of general public, members, stakeholders, and shaken the confidence of depositors.

These are the classic cases where the corporate governance practices, and management failed within the sector from both the sides.

11.4 MEASURES FOR STRENGTHING GOOD GOVERANCE, MANAGEMENT IN CO-OP BANKING SECTOR

[1] It is high time that RBI should introduce the Corporate Governance Philosophy, Practices and Code of ethics to co-operative banking sector. and make it mandatory to follow and publish in annual reports of the bank.

[2] UCBs be advised to make amendment in their byelaws to this effect with the approval of Annual General Meeting of members of the bank.

[3] Expert committee recommendation on the Model Bye Laws are approved by all state govts. And necessary amendments are carried out in respective state co-op scty .act. and model bye-
laws of urban co-op bank. However it is suggested that registrar may incorporate separate section on corporate governance in the model bye laws.

[4] With a view to improving the financial soundness of UCBs sector and revival of sick UCBs the RBI has entered MOU with all state govt.s since 2005. RBI may make regulatory arrangement to enforce these practices by incorporating separate clause in the MOU and execute with state. govt. representative. TAFUCB should take lead for its implementation through Urban bank state level and national level federations.

[5] The scope of financial disclosures, accounting standard and principles should be enlarged other than the existing one issued by ICAI and disclosures of the RBI. The group exposures, and loans and advances to associated firms, companies, Quality of assets, Investments of the bank, deposits kept with other banks for business tie up arrangement.

[6] The profile of the members of the board which includes their full name, age, educational, professional qualification, category under which he/she got elected to board [Open, Reserved S.C. S.T.O.B.C N.B.T ,Women.] Any unfilled vacancy in the constitution of board should be indicated with the reason should be disclosed.

[7] Training and development programs imparted to the members of the board. Training on economic & banking trend, RBI monetary policy, prudential norms, accounting standard and practices. Financial statement, disclosures in reports, role, responsibility and accountability of board, various committees such as Alco, Audit, Investment, Risk management in various bank operation.

[8] The text of the annual report should contain the transparency of working. Any critical matter related to Management, Board of directors such as court litigations against banks, action by regularity authorities like Registrar, RBI, penalty imposed on the bank for violation of guidelines, directives should be separately displayed in the report with the updated status of such cases.
As a part of prudent governance the various sub committees of the board should be chaired by different members to avoid concentration of decisions. Chairman of the bank should not be chairman of all the committees. This will also enforce the collective responsibility, accountability, role, and participation of members in the working of the bank. This would enhance the status of individual member.

As a part of prudent governance there should be rotation of chairman, Vice chairman within the tenure of five year period. Similarly all the members should be given an opportunity to work on various committees of the board by rotation.

The board and Management has to demonstrate accountability and responsibility to the members, depositors, general public and other stakeholders. Annual reports should contain the factual position, truthful and accurate disclosures and transparent reporting manner which are the most essence of corporate governance. The co-operative banking sector should follow this voluntarily to build up their image, confidence and credibility.

RBI, NABARD should prevail upon govt. of India to bring suitable amendments in the state co-op scy. act B. R. Act in respect of legal prohibition on the MLA, MLC, MP, Political leaders for holding office of profit in central, public sector undertaking or directors of co-op banks. Majority co-op banks are controlled by politicians or affiliated to political parties. Due to political interference effective governance is not possible in UCBs.

UCBs should formulate their Vision Mission document and Corporate philosophy for protecting interest of their members, depositors, by adhering regularly norms, byelaws, provisions of acts and upholding co-operative principles to maintain distinct identity of the co-operatives. Code of ethics for board and top management.

The philosophy document should clearly draw the lines for practicing the same.

The co-operatives should strictly adhered to the provision of act, byelaws, procedure related to their accountability towards members of the bank i.e. sending of notice of AGM, copy of
annual report, holding of AGM within stipulated time, clarification sought by members on the annual reports, business and financial statement of the bank. Submission of desired documents rightly fully called by member. Allowing members to participate in the meetings, clarify the issues raised during the meetings. and adoption of various resolutions.

[16] Conducting of election of board in a democratic way within time as per tenure of board.

[17] Co-operatives banks are also governed under other acts such as Multi state co-op scty act,[ In case of banks registered under multi state act.] B. R. Act, RBI Act, Rules and regulation of Anti Money Laundering act,[AML], FIUINDIA act, as now banks are also offering various other services like Pan card, Dmat, Insurance, provisions related to respective acts ,in SEBI IRDA also made applicable to co-op banks.

[18] Bank should have a separate cell to redress the complaints of members, depositors, and redressal mechanism system’ should be in place.


[20] Regulators, Registrar ,controlling authorities to keep strict vigil on the working of the bank as general public, depositors, members strongly believe, support and relay in the views of controlling authorities in case of any financial trouble in the bank. and become complacent about corp. govn. issues but regulators relay on market discipline by the board of the bank.

[21] The composition of members in co-operatives requires to be changed. At present due to linkage of share holding, majority members of the banks are large borrowers. They vote in election, attend AGM but their interest is limited similarly different constituents of member have different interest depending upon the nature of their relationship.

In few co-op banks member employees have a strong force to contest the election, AGM proceeding. In another case community members rule the working of bank. Strictly speaking the democratic principle of one member one vote is virtually controlled by such groups. where as depositors members, financial members, small members participation is very limited. As a
results governance issue becomes more complicated between Board, Management and Members of the bank

[22] Listing of co-op banks shares and trading in market, transferability and formation of joint stock co-operatives may improve the composition of members and corporate control. and improve the performance of the bank as financial the financial results are linked with market prices of shares.

In many countries Block holders [large share holders] are dominant form of corp. govn. who actively and continuously monitor working of organization. Small shareholders can relay on these block holders to defend the interest of all the members.

[23] Role of auditors is very important in respect of drawing of financial statements such as balance sheet, profit & loss with greater transparency. Co-op banks should adopt all disclosure norms on the lines of disclosures by commercial banks in India.

RBI has advised RCS and State Govt. and ICAI that financial statements, balance sheet, and profit &loss accounts should be prepared based on the prudential norms. and it is the responsibility of statutory auditors, departmental auditors of co-op banks to look into the compliance of these norms.

[24] Auditors should be well conversant with all aspects of the guidelines issued by RBI, ICAI from time to time. and balance sheet, profit &loss account,financial statements are prepared in a transparent manner and reflect the true state of affairs.

All the provisions, statutory payments, tax liability, appropriation are properly drawn before arriving at net profit and in terms of accountancy rule and act.

[25] UCBs should publish their audited half yearly financial statements balance sheet, profit &loss account and abridged provisional statements on quarterly basis in news papers for the information of general public. These financials should be duly approved in the board meeting and foot note of the same should be given with date of meeting in the publication.

[26] RBI has introduced the rating model for UCBs.[Revised CAMELS] on the basis of weighted average. from march 2008 by dispensing earlier grading system. A composite rating is
determined on ten point scale from A to D indicating increasing/decreasing order of performance and increasing order of supervisory concerns.

The rating is more transparent averages D,C-,C+,B-,B+,A-,A, A+. with the weighted average marks from below 45 to above 85. However on the basis of representation received from co-op banks federation, association RBI introduced rating model of A B C D on the basis of revised CAMELS weighted average marks by dispensing with earlier rating system.

[27] Rating is given after the on site inspection of banks. Prior to that Statutory Auditor awards the audit class to the bank i.e. A B C D as applicable to bank which is published in the annual reports.

After RBI inspection Inspecting officer [I.O.] makes necessary corrections in the financials particularly, NPA, Investment provisioning, reclassification of NPA, erosion in capital, other assets of the bank and makes other observations on the basis of which profitability is affected and the financials are different than what earlier certified by auditors and in such cases downgrade the bank. It happened that A audit class has been down graded to C – or B- by RBI after the inspection.

However as per the existing rule RBI gradation is confidential and not to be disclosed by banks in their reports. Ultimately depositor, general public remains in dark about the true affairs of the banks. This is contrary to the principles of governance.RBI should allow UCBs to disclose changes affected in the financials, profitability, and rating of the bank in their next annual report, put it on website under separate head of disclosure and other communication channels of depositors, members.

[28] Implementation of Malegam committee suggestions on Board of Directors [BOD] and Board of Management [BOM], follow of corporate governance to be specified by RBI, appointment of full time CEO.

[29] Structured and well defined professional management cadre and role of CEO to be more powerful as against its present level.
[30] TAFCUB should prescribe vertical and horizontal structure of the bank depending upon the size of the business, branch network, area of operation.

[31] Co-op banks should disclose their single party and group exposures, consortium lending, risk associated to such advances by bank.

[32] Bank should disclose the position of restructure advances, legal action initiated for recovery, pending litigations with various courts, forums and segments wise percentage of NPA of advances.

[33] Bank should also disclose graphical composition of shareholding of the bank i.e. individuals, proprietorship, partnership, private ltd.co. etc.

[34] Bank should disclose sector wise loans and advances, and over dues of the bank.

[35] The bank should develop their in house system to supplement supervisory regulatory system.

[36] RBI should tighten the disclosure norms in view of the various financial scams in the co-op banks.

[37] In the composition of board of directors representation should be given to depositors members of the bank.

[38] The payment of dividend should be strictly linked to the average deposit rate of the banking sector, profitability ratio of the bank. High rate of dividends should not be allowed.

[39] There should be separate regulator and separate legislative law for co-op banks as it is now governed under co-op societies act.
RBI should clearly define the role and responsibility of professional directors either elected or co-opted with banking and finance expertise as it is observed that these appointments are made merely to comply with mandatory provisions.

The scope of statutory auditors appointed by register should be enlarged to cover the working of board, management, administration, complaints from stakeholders, depositors against management.

National, State level Federations, Associations, Forums, Unions of co-operatives can collectively play important role in this area through national seminars, conferences etc.

11.5 **FINAL/ CONCLUDING NOTE**

Effective implementation of corporate governance practices and professionalism in management not only strengthen the working of the co-op banking sector but it will fetch the successful results of the various financial reforms initiated by govt. Co-op sector will be strong enough for confronting challenges and convert them into business opportunities in the complex financial market and competitive banking in coming years.

It will enhance the confidence of stakeholders, depositors, financial investors, and build image of co-op banking sector.

Olivier Boned has rightly said that “Annual reports are best tools for detailing and promoting corporate governance with its strong specific features. Corporate governance needs to be explained, developed and promoted. In other words I say that voluntary, approach initiatives by co-operatives is necessary for developing, promoting and effectively enforcing the governance in the organization and sharing of its success with all stakeholders.

The success of vision documents lies in the voluntary implementation of governance principles for which initiative should come from bank themselves and well known quoted statement about the co-operatives i.e. ”Co-operation has failed but Co-operation must Succeed’’ will be replaced with ”Co-operatives Survived as Co-operative Governance has Succeeded’’ I hope my research study is a sincere attempt and way towards the path of success in the International Year of Co-operatives 2012.


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