CHAPTER VII

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

INTRODUCTION

Corporate Governance, one of the most focused and valued disciplines in management in the modern day, is integrated in the new-basel accord for the effective implementation of the Pillars (Market Discipline) of the same, which depends on the effectiveness of corporate governance. This discipline is based on an integrated strategic and holistic enterprise risk management system for evaluating the financial strength of the banks and for achieving competitive equality and financial stability.

Corporate Governance has become inevitable in the banking sector as the risks in financial markets that affects a bank are several and have a more sensitive and intense relationship with the economy than other corporate. From the perspective of the financial system, Corporate governance involves, the manner in which the business and affairs, of the individual institutions are governed by their board of directors and senior management which affect how banks

- set corporate objectives
- run the day to day operations
- consider the interest of recognized stakeholders.
- align corporate activity and behavior with the expectation that the bank will operate in a safe manner and
- protect the interest of the depositors.
CORPORATE GOVERNANCE PRACTICES IN INDIAN OVERSEAS BANK

Philosophy on code of Corporate Governance Indian Overseas Bank had explicitly defined the code of Corporate Governance. It says, “The bank believes in adopting and adhering to the best Corporate Governance practices and continuously benchmarking itself against each such practice. The bank has infused the philosophy of Corporate Governance into all its activities.” The philosophy on Corporate Governance is an important tool for shareholder protection and maximization of their long-term values. The management and organization of Indian Overseas Bank endeavours to be progressive, competent and trustworthy for customers and stakeholders; besides reflecting and respecting the best Indian values in its conduct.

BOARD OF DIRECTORS

The annual report of Indian Overseas Bank highlights that the composition of the Board of Directors is governed by companies Act, 1956, the banking Regulation Act, 1949 and the clause 49 listing agreements of the Indian exchanges where the securities issued by the bank are listed. The board has thirteen directors comprising Executive official, non executive and non-executive directors. The annual report points out that the board consisted of eminent persons with considerable professional expertise and experience in banking finance, law and other related fields.

All the directors are advised on the date, place of the meeting and the agenda well in advance. The directors have access to all additional information on the agenda. All the meetings are conducted with proper quorum and without any adjournment.

AUDIT COMMITTEE The audit committee of the Board has been constituted by the Board of Directors as per the directions of the Reserve comparison of Executive Director, Government Director, Reserve Bank of India director, two non-official directors of whom one is a chartered accountant. The names of chairpersons, frequency of meetings and forums, posers and functions of audit committee are properly disclosed. There is no proper disclosure regarding the dates of the meeting.
REMUNERATION COMMITTEE Remuneration payable by the Central Government and the Bank does not pay any remuneration except sitting fees to non-executive directors.

BOARD PROCEDURES All the details relating to board meetings are properly disclosed. All attend a minimum of four meetings. The term of chairmanship is restricted to five companies and none of the directors is the chairman of more than five committees and none of the director is the member of more than ten committees.

SHAREHOLDERS COMMITTEE The names of non-executive director heading the committee, name and designation of the compliance officer are properly disclosed in the CG report. The number of complaints received are properly disclosed. All the complaints received are resolved in the same year itself.

GENERAL BODY MEETINGS Location and time of the General Body meetings are fully disclosed. Only a little information is disclosed regarding special resolutions.

DISCLOSURE There are no significant related party transactions of the bank with its directors, Management, their subsidiaries or relatives etc, which would have potential conflict with the interest of the bank at large. All the requirements of stock exchanges and SEBI and other statutory authorities are duly complied. No penalties were imposed by stock exchanges. All the abovementioned details are properly disclosed in Corporate Governance report. The bank at present does not have a whistle blower policy but has a policy which is similar to it. The bank has complied with all the mandatory requirements to the extent provided for in the directions issued by the Reserve Bank of India and Government of India.

MEANS OF COMMUNICATION The quarterly unaudited financial results of the banks are approved by the Board of Directors and the same are submitted within the stipulated period to all the stock exchanges where the bank’s shares are listed. The bank has been sending quarterly results to all the shareholders. The quarterly financial results are also published in the national daily and a regional vernacular daily I terms of clause 41 of the listing agreement. The quarterly results are also being displayed on the Bank’s website www.iob.com. Official news releases are also properly disclosed.

GENERAL SHAREHOLDER INFORMATION Annual General Meeting date, time and venue, financial year, date of book closure and dividend payment date are fully
disclosed in the CG Report. Listing of stock exchanges with the name of stock exchange stock code and annual listing fees are properly disclosed. The market price data i.e. high/low during each month of the financial year both in National Stock exchange and Bombay Stock exchange are disclosed. All the details regarding Registrar and Transfer agent and share transfer system shareholding pattern and its distribution schedule are highlighted very clearly by IOB. The shares of the bank are under compulsory demat trading and as such the bank has joined as a member of the depository services with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as an issuer company for dematerialization of the Bank’s shares.

ADDRESS FOR CORRESPONDENCE If any queries are to be made by the investors regarding any activities related to corporate governance they may file a complaint to the Investors Relations cell at its central office, that deals with the services and complaints of the shareholders.

FINDINGS OF THE STUDY

ASSESSMENT OF THE PERFORMANCE OF THE BOARD OF DIRECTORS OF IOB The study has discovered that Indian Overseas Bank plans all its activities based on the goals of the bank and the involvement of executive directors and non-executive directors in decision making to achieve future end states. It is also understood that the overall objective of the board is to ensure that the interest of all stakeholders are protected especially the wealth maximization concept of shareholders.

According to the companies act, the management vests directly in the Board of Directors and no Chief Executive needs to be employed. But no corporate in India is functioning without the CEO/CMD. This principle also applies to Indian Overseas Bank, where it is the Board of Directors and the Chairman cum- Managing Director. The profile of the Directors of Indian Overseas Bank reveals that the bank is managed by efficient directors, size is reasonable and the directors great involvement adds to the efficiency of the board.
The study also portrays that the board has adopted a code of conduct for all directors, General Managers including field managers and a declaration has been obtained from the CMD confirming their compliance with the code of conduct.

An important finding of the research is that, 37.5% of the respondents said that the board of Indian Overseas Bank has knowledge of similar backgrounds, 12.5% of the respondents proved that they have different backgrounds and 50% proved that they have very different background. Relating to expertise and skills, 6.25% of the respondents stated that the board members have good response and experience; another 6.25% mentioned that their expertise and skills are balanced; and a good percentage of 87.5% have mentioned that all the members are highly skilled and experts. This proves that there is diversity of the board with different ethnic and cultural backgrounds.

The board of Indian Overseas Bank also has various qualified independent sub committees such as Audit Committee, Remuneration committee, Grievevance Redressal Committee, Management Discussion and Analysis Committee, Risk Management Committee and Nomination Committee.

All these committees meet frequently every year as per the guidelines of the Reserve Bank of India. Indian Overseas Bank monitors all the activities and reports the same to the Board for further discussions in any area of concern. All the meetings are conducted with proper quorum and without any adjournment.

An Interesting finding of the study is that Board meetings are held at least once a quarter with a minimum of 6 times a year. The board meetings are held in Chennai, Delhi, Pune, Mumbai, Goa and Kumarakam. All these meetings had a minimum of 75% attendance. This shows the involvement of board members in attending meetings.

A surprising disclosure of the study is that Management discussion and analyst report covers bank’s structures, segment wise performance outlook, risks, internal control system etc. which forms part of director’s report. Besides the management makes full
disclosure to the board relating to all material, financial and commercial transactions and the same is published in the annual reports and website of Indian Overseas Bank. Regarding transfer of shares, no request for transfer is pending for more than one month. The involvement of shareholders in the board also discloses that the shareholders have an in depth knowledge regarding the board process. All the respondents of the study are fully aware that the bank has a full-time compliance with laws and regulations.

It is clear from their responses that Indian Overseas Bank cares for shareholders rights and communicates all the results on time. An interesting finding of the study is that all the rights of the shareholders are fully protected though vote by postal ballot is not entertained till date. Presently the bank does not have a whistle blower policy, however, no persons have been denied access to the audit committee.

The startling finding of the study is that the evaluation of the board as a whole is the responsibility of the chairman. Responding officials state that there is no formal evaluation system for the board. Executives are evaluated on the basis of confidential reporting. Moreover decisions are taken collectively and not individually due to which evaluation process becomes difficult.

**BOARD CULTURE IN INDIAN OVERSEAS BANK** The study portrays that the Board of Directors of the bank have special knowledge and practical exposure in the areas of Accountancy, Agriculture, Economics, Finance, etc. The strength of the board is 13 directors comprising three whole time directors and 10 non-executive directors, which includes 3 directors elected by the shareholders to duly represent their interest. This clearly reveals that Indian Overseas Bank has more than 32% of the total paid up capital to have three directors on the board elected by the shareholders other than the central government.

It is also declared that none of the directors are related to each other or related to any of the employee of the bank. The deputy general manager, a qualified company secretary attached to Board services department is also the secretary to the board, in
accordance with the recommendations of the Dr. Ganguly committee. The terms of appointment of CMD and whole time directors are in accordance with Sec. 9 of the Banking Companies.

Acquisition and Transfer of Undertakings Act 1970, the central government and after consultation with Reserve Bank of India. Similarly payments or benefits to the directors and officers of the bank are in accordance with Central government rules. The directors of the bank are not eligible to any additional benefits upon termination of employment.

It is also found that the bank shareholders other than the central government, by resolution, can remove any director elected under clause (1) of subsection (3) of section 9 and elect in his place another person to fill the vacancy. The bank does not pay any remuneration to directors except sitting fees as per the directives of central government. Moreover, shareholders approval would be necessary in fixing the remuneration packages of non-executive directors.

A startling finding of the study is in relation to board meetings. Notice of every meeting of the Board of Directors is given in writing with the time gap of 14-21 days. The agenda is also sent along with the notice of the meeting. All board meetings are conducted in Chennai, Delhi, Pune, Mumbai, Goa and Kumarakom. In Chennai, the usual venues are Rani Seethai Hall and Narada Gana Sabha and also in the separate hall available in the central office.

One of the factors for judging the direct participation and involvement is regular attendance in the board meetings or annual general meetings. Hence the bank is also serious about the attendance. The listing agreement compels a company to inform the stock exchanges the dates and purpose of board meeting and the attendance record is still a confidential record.
A surprising disclosure of the study is that the bank conducts nearly 6 to 7 board meetings every year with 95-99% of attendance. Board meetings lasted for 3 hours and more to discuss matters relating to policy guidelines and decision-making. The minutes of the proceedings are maintained as documentary evidence and also accepted as legal evidence. In cases where the directors are unable to attend the meeting, they may either appoint the proxy or an authorized representative. No officer or employee of the bank shall be appointed as authorized representative or proxy of a shareholder.

During the period of study, the bank has so far conducted six annual general meeting usually on Fridays or Saturdays. The majority of shareholders disclosed that they expect regular dividend and do not have the interest in attending such meetings. Venue is also one of the factors which keeps the shareholders away from the meetings.

The bank has conducted only 2 EGM’s in Chennai. This was conducted purely to elect directors and determine shareholders voting rights. Policies are formulated by the management and approved by the board after taking decisions in board meetings.

The study focuses that the board informs the shareholders when some material events have taken place in the bank. The board owes a fiduciary duty towards its shareholders in highlighting all the details transparent in its annual report. This shows that Indian Overseas Bank is strictly adhering to relevant corporate governance principles particularly disclosure of mandatory and non-mandatory issues. The periodical review and disclosure of risk on a quarterly basis, ensures that the management is effective in controlling risks.

CORPORATE SOCIAL RESPONSIBILITY, INTERNAL CONTROL AND ROLE OF AUDIT COMMITTEE  The study has disclosed that

- Indian Overseas Bank has funded a portion for large scale community development project to enable farmers to use local resources. It has contributed to the development of the quality of life in rural and semi-urban
areas by establishing rural training centre, health care, women development, etc.

- Indian Overseas Bank has been doing a pioneering work in the promotion of health care by extending sponsorship for various charity organizations, creating public relief fund, contribution to cancer institute etc.

- Indian Overseas Bank has been continuously striving for the development of a total village Development project – IOB sampoorna Project.

- Indian Overseas Bank is socially active in the areas of education granting loans under sanjeevini scheme for medical practitioners, and loans for providing education for all.

- Indian Overseas Bank has helped women and children through its Shakthi IOB Chidambaram Chettiar memorial Trust in rural areas by providing various vocational training programs.

- The study has brought to a sharp focus that IOB’s auditors shoulder all their responsibilities as per the standard auditing practices, and Reserve Bank guidelines and Central Government rules.

- The statutory auditors of the bank issue modified report whenever any material mis-statement arises. But, so far, no such mis-statement arose during the period of study.

- Appropriate quality control policies and procedures are ensured by the bank.

- The assets of the bank have been properly safeguarded and all policies and procedures have been complied with.

- The board and the management of Indian Overseas Bank rely heavily on the internal auditor to prevent corrupt practices.

- The auditors of the bank comply with all the rules while preparing an audit report.
• Indian Overseas Bank follows a three phased audit system to enhance the quality of financial statements with innumerable notes on accounts while certification.

• To manage risk in various banking activities, the bank has put in place various risk management systems and practices with the guidelines of Reserve Bank of India issued from time to time.

• Risk management committee, the Credit policy committee, Asset Liability Management Committee and Operational risk management committee are formed to manage various types of risks.

• In line with the guidelines issued by the Reserve Bank of India, the bank has implemented new capital Adequacy Framework (Basel II) with effect from March 31, 2008.

• The performance of the bank is evaluated based on various corporate qualitative and quantitative disclosures namely capital structure, capital adequacy, credit risk, market risk and operational risk.

• The bank has a database on operational risk loss events and losses since 2006.

• And finally it is brought to the notice of all stakeholders that auditors perform their accountability and reinforce investor confidence.

SUGGESTIONS

The growing integration of the financial markets and increasing liberalization of the goods and services markets is creating a more and more complex economic environment. They are deeply involved in all areas of finance including insurance, foreign currency markets and so on. Code of good governance and its rigorous implementation are an imperative in the context. Every country has attempted to lay down rules of good governance. In India too, SEBI had laid down these guidelines some of which have been incorporated into law. The RBI has also adopted a series of measures to strengthen governance.
As far as banks are concerned, corporate objectives should aim at not only securing a high return for shareholders, but also ensuring its contribution towards a sustained growth of the economy. Every bank has to analyze itself as to what extent it would lend to the priority sector in the absence of Government guidelines.

The Boards of the banks will have to take the responsibility as to how well they can implement government directive without jeopardizing the long-term interest of the bank in the interest of corporate governance.

The selection of the members of the Boards where selection is involved, the Government has the last word. How much interest the directors take would be revealed only by independent assessment of their performance. There are no accepted procedures of evaluation of board performance. This is yet to evolve as a part of good governance systems.

The audit committee on the board can take to task the senior management for lapses in lending and recoveries. The internal audit should be an efficient audit and it should report to the audit committee on the efficiency parameters laid down by the Board.

A significant aspect of good governance is the effective supervision and control of line managers. In every aspect of administration what is lacking in India is effective supervision of line staff by seniors.

Good governance involves hard work and many sacrifices on the part of everyone. Special bankruptcy courts should be set up not necessarily with judges drawn from the judiciary but from the market selecting knowledgeable persons. Just as in arbitration proceedings, lump sum remuneration to judges should be agreed upon in open proceedings for each individual case. Unfortunately there is no time limit for arbitration proceedings even though they are supposed to result in speedy resolution of disputes.
There should also be a provision for imposition of fines by the SEBI/RBI in the case of banks on directors and senior management for violation of responsibilities entrusted to them under the law. There should be only one appeal to the decision of SEBI/RBI to a specially constituted appellate authority. Imprisonment should be by courts for only criminal acts. In the case of banks they should be out of the purview of the Central Vigilance Commission. Corruption in banks should be tackled internally and the Boards should lay down appropriate safeguards to prevent corruption.

Suitable training of staff will have to be arranged to safeguard the banks against exploitation by money launderers or terrorists.

Corporate Governance is not a static concept but dynamic with new regulatory laws and changing political and economic environment of a country. With economies changing very fast dispersion of risk has become a passion and for this purpose new financial engineering devices are being promoted. Banks, in general, have therefore to keep their management and control practices continuously under review to maintain the quality and effectiveness of governance.

Another step to improve corporate governance is to encourage corporate governance research centres. It may be organized on regional basis. Such centres should be organized to build up the database and disseminate information. This will enable the shareholders to identify the company with good corporate governance practices. They should be empowered to collect the information from banks. However steps should be taken to see that such research centres should not be turned into proxies of corporate houses.

Corporate Governance is vital to the integrity and the efficiency of financial markets. It implies a well defined, well structured and well communicated system to manage, direct and control the conduct of business of a company.
Thus corporate governance is the way the firm ought to be run, managed and controlled. It is related with supervision and holding the responsibility of those who direct and control the management. It also includes framing rules and procedures to run the unit. It directly refers to the induction of checks and balances in the system to prevent abuse of authority. It also hints at ethical and integrated behavior to maintain the financial results.

A private enterprise, today, is judged by criteria which are different from those of half a century ago. It has not only to be efficient to satisfy the industrialist by earning him more profits but also has to satisfy the investor and the financier by paying them more dividend and interest. It has to be conscious of its wider social responsibilities.

Thus Corporate Social Responsibility is about how companies manage the business processes to produce an overall positive impact on society.

Corporate governance relates to the relationship among various stakeholders in an organization and aims at maximizing shareholder’s value legally, ethically and on a sustainable basis, while ensuring fairness to the companies customers, employees, investors, vendors, the government and the community. The objective of the management is to maximize the interests of the shareholders. Even though shareholders entrust the board directors to guide and monitor the management, they are given rights and opportunities to participate directly in monitoring the affairs. Therefore shareholders expect timely information, transparency in voting rights and proper disclosure norms among others.

One of the important initiatives in Corporate Governance forms the world over has been the emergence of ‘Independent director’. Their contribution in ensuring good governance has been a subject of debate in recent years. Hence the need to examine the rationale for including the independent directors on the board, and their effectiveness. Corporate governance codes across the world have advocated the need for independent non-executive directors on the board. An independent director is one who is independent
Auditors are given wide powers to enable them to detect misdeeds by the management. They are expected to be independent of the company and report on the company objectively. They can report to what extent the bank practises corporate governance. They are expected to play a significant role in maintaining good corporate governance. They must act as the guardian of the company’s financial integrity. This is to ensure that the legal position is in tandem with international standard in the realm of corporate governance. Much emphasis is placed on auditors because in most cases, auditors are the first person to spot corporate exploitation. The audit quality and the independence of the auditors are questionable. This is because the auditors were not only receiving fees for auditing but for non-audit services too. Rightfully, the Code should be amended to include a provision that an auditor should not be allowed to offer any form of non-audit services which may put them in a position of conflict of interests. The duties and obligations of auditors must be expanded for the sake of capital market, stability of financial and economic sector and the rights and interests of stakeholders. A higher audit quality will provide better information to them. There must be a modern approach to the auditor’s duties and obligations in the context of corporate governance.

On the most promising areas of future Corporate Governance research is “How to resolve the agency problems of overvalued equity?. How to deal effectively with the non-rational behavior of people?.”

CONCLUSION

Corporate Governance is concerned with empowering people, pursuing innovation and improving efficiency. Ensuring transparency and probity in corporate affairs can make a major contribution to improving standards, public accountability and consequently increase its market capitalization. India is on the threshold of profound transformation. The gap between what can be imagined and what can be achieved is to
be studied. The governance systems must foster innovation, creativity and build trust, transparency and a sense of sharing. We must recognize that we are living today not in an economy of hands or heads but the hearts. The governance system needs to be recast in such a way, that they touch the hearts and not only the minds.

The Reserve Bank of India has taken various steps furthering Corporate Governance in the Indian Banking system. However there are many gaps in the disclosures in India vis-à-vis the international standards, particularly in the area of risk management. This calls for effective risk management systems. The framework provided by Cadbury, Kumara Mangalam Birla and the Basel committee are quite wide and extensive. Only the collective effort, we can take institutions to the right direction. Little acts of neglect might cause major scams. It only takes a small hole to drown a big ship.

Despite a long corporate history, the phrase “corporate governance” remained unknown until the late 1990’s in India. Through many experiences, especially the Sathyam experiences, Indians have become a lot more aware of corporate governance and why it is important to the efficient functioning of a company. The reasons are innumerable. These have restricted Indian corporate sector’s progress on the path of good governance principles. It is concluded that despite India’s best efforts to adopt the best corporate governance practices, their implementation has remained inadequate due to reasons of path dependency. The role played by the institutional investors in corporate governance will end up in better monitoring and better corporate governance practices. Hence it is here that all the stakeholders have a unique role to play in making corporate governance effective.