4.1 UNETHICAL BANKING PRACTICES:

John (1996) referred that there are many faces of unethical practices and the prime one is the corruption, where public office is used for personal gains. Asemota (2003) stated that corrupt actions is not only restricted to bribery, extortion, influence peddling, nepotism, fraud, embezzlement and abuse of power. Dzansi (2006) avowed that in small organisations the prime reason for unethical practices is its size and the struggle to survive within the competitive market.

A number of the big corporate houses which are wearing an ideal mask are actually making money by engaging into unethical practices and thereby fulfilling their core objective of maximizing shareholder’s value. They are making huge profits at the cost of anything - leading to pollution, health hazards, destruction, monopolize markets and even breaking laws. For instance; McDonald’s Corporations (popularly known as McDonald’s) which is the largest food selling retail chain, is engaged in supporting children suffering from life threatening diseases but ironically the products which they sell leads to obesity, asthma, heart diseases and possibly mad cow disease. Not only the products harm the individual and environmental well-being, they also highly influence the culture of some East Asian nations.

Observing ethical practices helps in building an honest reputation ensuring smooth running of the organization. Some of the vital ethical banking practices to be followed by the banks are summarised as under:

- **INVESTORS:** Ensuring safety of their investment and timely payment of interest.
- **EMPLOYEES:** Adhering to non-discriminating policy by providing them with an equitable opportunity for promotion and training, ensuring safe and hygiene working environment and regular payments of salaries.
• CUSTOMER: Dealing with them in a polite and impartial manner and also maintaining transparency about the banking products/services.

• COMPETITION: Deceitful tactics, competitor bashing and fraudulent methods should be avoided while handling competitors.

• GOVERNMENT AND REGULATORY BODIES: Rules and regulations regarding banking activities and unlawful activities like corruption and bribing should be adhered to.

• ENVIRONMENT: The banks should positively contribute towards the ecology and must not provide finance to those organisations who have been defaulting the norms specified for the protection of the environment.

It has been observed that there are some employees who deliberately carry out unethical behavior and practices. The study identified some of these unethical activities, viz;

• Resorting to dishonesty, trickery or deception.

• Distortion of facts to mislead or confuse.

• Manipulating customers emotionally by exploiting their vulnerabilities.

• Greed to accumulate excessive profit.

• Creation of false documents to show increased profits.

• Avoiding penalty or compensation for unlawful act.

• Lack of transparency and resistance to investigation.

• Sexual discrimination and gender biasness.

• Excessive work load to the employees by giving them unreachable targets.

• No payment or marginal payment for over-time.

Organizations have now recognized the positive effects and outcomes of being ethical, humane and considerate. They have a competitive edge in the market, because
of the honesty they show in their services. Their morally upright reputation attracts better staff and helps in retention. Though ethics are legally binding in most cases, self-monitoring, transparency and accountability will go a long way in establishing trust and confidence of the people.

4.2 GREED:

“Earth provides enough to satisfy every man’s need, but not every man’s greed”– Mahatma Gandhi

Corporate greed is the actions by the business organizations which are aimed at maximizing their profits at all costs. These are actions mostly done by large corporations where they disregard all issues, moral or legal, and only concentrate with making profits.

Madrick (2004) stated that the rising corporate scandals are the direct upshot of greed. The professionals such as lawyers, managers, investment bankers lie to make more money. Johnson (2008) highlighted that the consumers are being taken advantage of and being manipulated out of their hard earned money. Consumer education is another way that society will be better able to check the abuses of corporate greed.

Many global financial crises analyst are of the notion that the combination of executive greed and banking greed provides sufficient explanation for the global responsibility crises. It has been seen that several leading public sector banks and financial institutions are being scrutinized over the allegations that senior bank officials accept bribes to sanction large loans to private companies. The bank officials are also accused of selling confidential business information of the banks. This alleged bribe-taking is a case of individual greed and not a systemic failure. Certainly there needs to be greater transparency in loan disbursement, there needs to be greater
accountability in the loans disbursement system and penalty imposition to the dishonest employees.

4.3 FRAUD:

Fraud can be identified as any behavior by which one person intends to gain a dishonest advantage over another. In other words, fraud is an act or omission which is intended to cause wrongful gain to one person and wrongful loss to the other, either by way of concealment of facts or otherwise.

Fraud is defined u/s 421 of the Indian Penal Code and u/s 17 of the Indian Contract Act. Thus essential elements of frauds are:

- There must be a representation and assertion;
- It must relate to a fact;
- It must be with the knowledge that it is false or without belief in its truth; and
- It must induce another to act upon the assertion in question or to do or not to do certain act.

4.3.1 BANKING FRAUD:

While the operations of the bank have become increasingly significant banking frauds are also increasing and fraudsters are becoming more and more sophisticated and ingenious. The number of bank frauds in India is extensive which is increasing with the passage of time in all the major operational areas in banking, such as: deposits, loan, inter branch, accounting, transaction etc.

RBI (Master Circular No. 229, July 2012) has initiated that all the frauds involving an aggregate of Rs.0.1 million and above should be compulsorily reported. All frauds below Rs.0.1 million are also to be reported to the RBI in consolidated form, category wise. Frauds are required to be classified in seven categories viz.
- Misappropriation and criminal breach of trust,
- Fraudulent encashment through forged instruments,
- Manipulation of books of accounts,
- Operation of fictitious accounts and conversion of property,
- Unauthorized credit facilities extended for reward or for illegal gratification,
- Negligence and cash shortages, cheating and forgery, and
- Irregularities in foreign exchange transactions and any other type of fraud.

Banks are also required to report all cases of frauds to the concerned investigative agencies immediately on its occurrence. The RBI maintains a database of frauds and their modus operandi and this information is shared with banks to enable them to prevent occurrences of such frauds.

In the case of frauds in loan accounts often committed by large borrowers with influence and backed by corruption, the banks have to bear the loss. However, in respect of genuine losses suffered by the retail customers through e-banking vulnerabilities, customers are forced into believing and accepting that it is their entire fault and thereby they should bear the losses. Though RBI has instructed the banks to consider e-banking frauds as operational risks and obtain insurance but the banks takes no notice of the instructions and try to cut costs on security at the cost of the customers. Another alarming factor is that the recovery rate of the fraud amount is almost negligible. It is also noticed from the study that the number of fraud cases in Indian public sector banks is around 4 digits whereas in case of private banks it is a whopping 5 digit. This shows a serious lack of fund security amongst the private sector banks. India's three largest private banks — ICICI Bank, HDFC Bank and Axis Bank — were accused of indulging in money laundering both within and outside, with
an online portal Cobrapost claiming that a sting operation conducted by it has revealed a money laundering scam.

It is also observed that even State Bank of India which is the most respected bank in India has been the leading public sector bank engaging in huge amount of frauds. HDFC bank presently has appointed accounting and audit firm Deloitte Touche Tohmatsu India to carry out an independent forensic enquiry into allegations of some of its officials facilitating money laundering activities. The bank has also appointed Amarchand & Mangaldas & Suresh A Shroff & Co to examine the breaches, if any, of the bank's Code of Conduct & Ethical Standards, conducted by any bank officials.

The Reserve Bank of India has issued a circular in the year 2009-10 (RBI/2009-10/159 DBS. CO/FRMC/BC/No.7/23.04.001/2009-10 September 16, 2009) on Fraud Risk Management System in Banks-Role of Chairman/Chief Executive Officer. The circular highlighted the increasing trend of frauds in the Indian banking sector both in terms of number and amount involved. The dominant areas are the housing and mortgage loans, credit card dues, internet banking etc. However in the instances of frauds covering the traditional areas such as cash credit, export finance, guarantees, letter of credit etc. remain unabated (Source: www.rbi.org.in ). In order to have uniformity in reporting cases of frauds, the RBI considered the question of classification of bank frauds on the basis of the provisions of the IPC.

4.3.2 KEY FACTORS RESPONSIBLE FOR THE COMMISSION OF BANK FRAUDS:

- Involvement of the banking staff either independently or with the involvement with the outsiders,
• Lapse on the part of the bank staff to strictly follow the provisions and
guidelines specified,
• External elements enabling frauds on banks by forgeries or manipulations of
cheques, drafts and other instruments, and
• Increasing involvement of the bureaucrats’, senior bank officials, politicians in
power to swindle the banks by getting the rules bent and ignoring the
regulations.

Abiola (2009) has classified bank fraud in the following manner:

i. FLOW FRAUDS:

It is the frequency and the value involved in the fraud. They are of two types:
• Smash and Grab: These types of frauds are high in value and are seldom
committed over a short period of time.
• Drip: These types of frauds are less in value and are repetitive in nature.

ii. VICTIMS FRAUDS:

It is based on the people who suffered loss from the bank fraud. It is again of two
types:
• Against the bank: If the bank is a victim of a fraud.
• Against outsiders: If the bank customers are the victim of the banking frauds.

iii. ACT FRAUDS:

The persons behind the fraud could either be the bank’s employees, executive
management of board, armed robbers, or theft by outsiders perhaps in collusion with
insiders.
4.3.3 FRAUD PRONE AREAS IN DIFFERENT BANK ACCOUNTS:

The following are the potential fraud prone areas in Banking Sector:

I) SAVINGS BANK ACCOUNTS:

The following are some of the examples in respect of savings bank accounts:

- Presentation and payment of cheques bearing forged signature of the depositor,
- Alteration of the specimen signature of the depositor after the demise of the depositor,
- Operating of dormant account by the fraudsters with or without the knowledge of the bank officials,
- Restoring to illicit withdrawals from the customer’s account by a bank official maintaining the savings ledger and later destruction of the recent vouchers.

II) CURRENT ACCOUNT:

The following types are likely to be committed in case of current accounts.

- Opening of fake account in the names of limited companies or firms by unauthorized persons;
- Presentation and payment of cheques bearing forged signatures;
- Breach of trust by the employees of the companies or firms possessing cheque leaves duly signed by the authorized signatures; and
- Changing of the amount of the cheques in a fraudulent way and getting it paid at the counter or another bank.

III) FRAUDS IN CASE OF ADVANCES:

Following fraud types may be committed in respect of advances:

- Pledging of spurious gold jewellery;
• Inferior quality goods may be pledged with the bank and their value may shown at an inflated figure; and

• Same goods may be hypothecated in favour of different banks.

4.3.4 TYPES OF BANK FRAUDS AND FORGERIES:

• Cyber crime or online banking scam or e-banking fraud
• Counterfeit signature in cheque, demand draft etc.
• Fraudulent transfer of savings
• Withdrawals through forgery
• Sanctioning of loan through fake or forged registered documents
• Usage of stolen credit card number
• Misappropriation of funds by the bank employees
• Swindling bank customers
• Alteration of cheque amount
• Clearance of fictitious cheques
• Cheating and forgery

4.3.5 MEASURES TO CONTROL BANKING FRAUD:

Since most of the bank frauds occur because of lapses in the ATM transactions, the banks now have adopted few safety measures to control such frauds:

• Upgradation of the ATM machines wherein the conventional flaws are reduced and in most of the machines the card needs to be swiped which is easy and convenient. This has mainly removed two major issues regarding reducing the chances of falling the cards into the wrong hands if the user leaves it in the ATM’s and secondly reducing the fear that the cards will not be ceased by ATM machines in case of repeated wrong entry of PIN.
• As an additional safety feature, ATM machines will now ask users to enter a two
digit random number of their choice from 10 to 99 before swiping the card. If
the keyboard of the machines is fault-free and not tampered with, the ATM will
tell the user to go ahead with card swiping.

• The maximum withdrawal amount is now fixed at Rs.10,000 and for any
additional requirement the card needs to be re-swiped and PIN must be re-
entered. This has provided a further safety measure and has limited the
fraudulent withdrawals to a maximum of Rs. 10,000 in comparison to the earlier
limit of Rs. 40,000.

• Banks are also conducting customer awareness programmes, displaying at the
ATM kiosks, running media campaigns to educate the customers for adoption of
precautionary steps while operating through ATMs.

  Fraud control is a very important function and employees working in these
units play even responsible role. This has actually led to the need of fraud control
units in the banking sector in India.

a) FRAUD CONTROL UNITS:

  Fraud control units ensure safety of the banking system as there is a lot of
room for the occurrence of fraud. Usually anti-fraud employees are hired to
specifically scrutinize and monitor the banking system where the potential for fraud
is more and other prospective threats that may adversely affect the banking
institution. The operational efficiency is improved and financial frauds are identified
by the efforts of the employees of fraud control units which helps the bank in curbing
the revenue losses.
b) CERTIFIED BANK FORENSIC ACCOUNTING:

Certified Bank Forensic Accounting is the dedicated course on the banking frauds which deals with various areas like cheque frauds, anti-money laundering, traditional frauds and technology frauds. This course is a result of the research in bank frauds in India. This is probably the only course in the globe which deals with the prevention, detection and investigation of the frauds in the banking sector.

4.4 DISTRESS OR BANK FAILURES:

Banks occupy the place of pride in any financial system by virtue of the significant role they play in spurring economic growth by undertaking maturity transformation and supporting the critical payment systems. The specificity of banks, the volatility of financial markets, increased competition and diversification, however, expose banks to risks and challenges. The protection of depositors’ interests and ensuring financial stability are two of the major drivers for putting in place an effective system of supervision of banks. In the wake of recurring bank failures and consequent financial crises over the last two decades, there have been resolute attempts by bank supervisors across the globe to limit the impacts of bank failure and corruption through ‘safety nets’ in the form of deposit insurance and liquidity support by the Central Banks and the Governments. An effective supervisory system is, however, critical for preventing bank failures by ensuring the safety and soundness of banks.

In India the first bank distress or failure had taken place way back in 1791, with the voluntary liquidation of the General Bank of India and Bengal Bank (Desai 1987). During the era of early 19th century most of the banks were operated by the English Agency House, characterized by unethical practices within the management...
and large speculative activities. This resulted into a number of bank failures of the small and weak ones accompanied with few strong banks. Again the Partition of Bengal witnessed the birth of few indigenous bankers who lacked the banking acumen. Due to the large number of banks disappearing within few years of its existence had shaken up the trust of the general public. Studying the functioning of the banks during that era revealed that lack of regulation and monitoring of the Indian banks had led to instability in the banking industry. Unethical activities gained momentum with insider’s trading, falsification of accounts and audit reports, window dressing of the financial statements etc. Young Currency Commission came for the rescue with a high recommendation of creating Reserve Bank of India as the Central bank of the sub-continent through the RBI Act 1935. With the passage of time the Indian Banking industry observed a number of ups and downs, which mellowed down with the implementation of the Banking Regulation Act 1949.

Basu (2003) stated in his study that the vital reasons for the bank failures are excessive competition, non-compliance of the credit standard requirements and absence of deposit insurance scheme. He further asserted that if the borrower of a bank loan fails to return the amount, there should be enough support by way of insurance or collateral security so that the bank can easily recoup the money lend out.

Even in international scenario with the worst recession hitting the US in 2008 has witnessed the fall of many banks. Most of the bank failures happened after Lehman Brothers filed for bankruptcy on 15th September 2008. The world's largest economy had seen the collapse of hundreds of banks within the period of 2008 till 2011. The count of bank collapses increased from 140 in 2009 to 149 in 2010 (Source: The Financial Express, New York, 12th December 2010). For instance, Western Commercial Bank, Pierce Commercial Bank, First Vietnamese American
Bank, Magnet Bank, Suburban Federal Savings Bank, Orion Bank based, Pacific Coast National Bank, Century Bank F.S.B, K Bank etc. were shut down by the authorities as they were unable to recover them (Source: http://www.timesofindia.com). The American banking industry continued to be shaky, with nearly 15 banks on an average closing down every month during the period of recession. Mostly the small and medium banks were not able to withstand the great intensity of the recession even though the American economy showed some signs of recovery. There were thousands of job cuts because of huge bank losses resulting into unemployment of the professionals who faced difficulties in getting absorbed in other organisation.

When banks were falling like ninepins in the US, India too was not far behind with two Indian lenders going belly up for every five in the world’s largest economy during fiscal 2008-09. As many 19 Indian co-operative banks, including six from Karnataka collapsed for the 12 months ended March 31, 2009, against 44 American entities failing during the same period (Source: The Financial Express, 08th April, 2009).

From the field survey, the researcher found that following are some of the vital factors which are directly or indirectly responsible for bank failure or acquisition.

- When the bank is extremely competitive in nature and endeavours to earn more profits through increase in their customers and activities, they are likely to indulge either in unethical activities or ignore fundamental banking norms at the cost of their returns.
- Providing loan to the directors or granting insider’s loan for personal gain of the bank officers.
• Failure to comply with the basic capital adequacy norms and incapable of maintaining liquidity position.

• Paying less attention to the type, nature or value of security at the time of collateral lending.

• When the bank officers lack professional knowledge, they may hire consultants for advising them during the decision making process which can have a grave consequence on the bank.

• Interest sensitivity to few classes of borrowers.

• Loan losses have been the most vital reason of bank failure in all sizes of banks.

MAJOR FACTORS FOR LOAN LOSSES:

• When the collateral is overrated.

• Distribution of funds before verification of complete documentation.

• Personal friendship or acquaintance of a loan officer with the borrower.

• Sanctioning of loan to a new business with an inexperienced owner or manager.

• Renewing of loan for increasing amounts with no additional collateral taken.

• Not analyzing and considering the borrower’s cash flows and repayment capacity.

• No attempt to verify and investigate the purpose for which the money was applied for. In most of the cases it was found that the funds were employed in some other activity which failed to generate enough income.
- Funds utilised out of the bank’s market area where the communication with the borrower is poor and even change in the address of the borrower without updating the lender creates troubles in loan recovery.
- Failure to inspect borrower’s place of business.
- Repayment plan ambiguous or stated on the face of the note.
- Failure to receive the borrower’s financial statements.
- Bank’s failure to follow its own written policies and procedures.

4.4.1 ROLE OF RBI TO CONTROL BANK FAILURES:

The supervisory intervention of RBI based on the position of the bank in the risk matrix could be one of the four: “Baseline Monitoring”, “Close Monitoring” “Active Oversight” and “Corrective Action”. Each supervisory stance would be associated with specific supervisory actions to be initiated by the supervisor. The objective of the intervention process is to enable the Supervisor to identify areas of concern at an early stage and intervene effectively so as to minimize losses. Indicatively, these intervention stages and supervisory actions associated with each stage of intervention could be on the following lines:

a) BASELINE MONITORING:

The banks falling within this zone in the risk matrix are perceived to be posing little risk to the supervisory objectives as also their failures would have limited impact on the financial system. The banks falling under this zone are likely to be characterized by stable financial condition and strong internal controls and governance systems. Therefore, the supervisor may not need to be overly concerned in respect of these banks and limit its supervisory work to a baseline offsite monitoring. Such banks should be taken up for onsite supervision only once in three years. However, as part of the annual supervisory cycle for such banks,
short-duration visits may be made by one or two officers for verification of the accuracy of the regulatory returns and to study specific issues in one or more risk areas.

b) CLOSE MONITORING:

Banks falling under this zone would be posing relatively higher risk to RBI’s supervisory objectives and their failures would have greater implication for financial stability. These institutions are likely to be characterized with modest financial condition and risk management systems and controls and would therefore need greater supervisory focus as compared to baseline monitoring. The supervisory actions in such banks should comprise enhanced off-site monitoring of the bank with increased frequency of reporting requirements. The periodicity of on-site inspections in the banks falling under this zone could be once in two years. The management, board of directors and external auditor of the bank may be apprised by the supervisor about the potential risks that the bank faces and the action required to correct these deficiencies.

c) ACTIVE OVERSIGHT:

Banks falling under this zone would be considered as posing significant risk to RBI’s supervisory objectives and their failures would have significantly higher impact on the financial stability. As these banks are likely to be vulnerable to adverse business and economic conditions and may have ‘material’ safety and soundness concerns, the supervisor would need to have active oversight on these banks. The supervisory actions in such banks should comprise yearly on-site inspections covering the risk areas judged as high or medium in the risk assessment exercise. RBI’s examinations should also have extensive transaction
testing. The onsite visits could also be supplemented with short-duration targeted appraisals for assessing progress and interactions with management.

d) CORRECTIVE ACTIONS:

Banks falling under this zone would be considered as posing grave risks to RBI’s supervisory objectives and their failures would have severe impact on the financial stability. In view of the large scale threat of potential failure of these banks, the supervisor would need to put these banks under continuous watch. This would include commissioning external specialists to thoroughly assess the quality of loan portfolio, security, asset values, sufficiency of reserves, etc. as also requiring the management and the board of directors of the bank to consider resolution options such as restructuring the bank or seeking a prospective partner for merger, amalgamation or takeover. RBI’s on-site inspections in such banks would be on an annual basis with wide coverage of the material risk areas coupled with elaborate transaction testing. The reports from external specialists could be used to direct the management to consider corrective actions which would be continuously monitored for compliance.

Table 4.4.2: List of Liquidated Indian Banks during the period 2002-2012

<table>
<thead>
<tr>
<th>SL. NO.</th>
<th>STATE</th>
<th>NAME OF THE BANK</th>
<th>DATE OF LIQUIDATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bihar</td>
<td>Madhepura Urban Development Co-op Bank Ltd.</td>
<td>May 27, 2002</td>
</tr>
<tr>
<td>2</td>
<td>Bihar</td>
<td>Nalanda Urban Co-op Bank Ltd.</td>
<td>July 22, 2002</td>
</tr>
<tr>
<td>3</td>
<td>West Bengal</td>
<td>Pranabananda Co-op Bank Ltd.</td>
<td>August 6, 2002</td>
</tr>
<tr>
<td>4</td>
<td>Manipur</td>
<td>Manipur Industrial Co-op Bank Ltd.</td>
<td>September 23, 2002</td>
</tr>
<tr>
<td>No.</td>
<td>State</td>
<td>Bank Name</td>
<td>Date</td>
</tr>
<tr>
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<td>------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>5</td>
<td>Uttar Pradesh</td>
<td>Federal Co-op Bank Ltd.</td>
<td>September 28, 2002</td>
</tr>
<tr>
<td>6</td>
<td>Assam</td>
<td>Silchar Co-op Bank Ltd.</td>
<td>December 16, 2002</td>
</tr>
<tr>
<td>7</td>
<td>Manipur</td>
<td>Lamka Urban Co-op Bank Ltd.</td>
<td>June 3, 2003</td>
</tr>
<tr>
<td>8</td>
<td>Assam</td>
<td>Sibsagar Dist Central Co-op Bank Ltd.</td>
<td>June 19, 2003</td>
</tr>
<tr>
<td>9</td>
<td>Andhra Pradesh</td>
<td>Hyderabad Co-op Urban Bank Ltd.</td>
<td>March 7, 2006</td>
</tr>
<tr>
<td>10</td>
<td>Assam</td>
<td>Guwahati Co-op Town Bank Ltd.</td>
<td>December 29, 2006</td>
</tr>
<tr>
<td>11</td>
<td>West Bengal</td>
<td>Rohuta Urban Co-op Bank Ltd.</td>
<td>April 10, 2007</td>
</tr>
<tr>
<td>12</td>
<td>Orissa</td>
<td>Bhadrak Urban Co-op Bank Ltd.</td>
<td>September 25, 2008</td>
</tr>
<tr>
<td>13</td>
<td>West Bengal</td>
<td>Jhargram Peoples Co-op. Society Ltd.</td>
<td>August 3, 2009</td>
</tr>
<tr>
<td>14</td>
<td>Maharashtra</td>
<td>Dhanashri Mahila Sahakari Bank Ltd.</td>
<td>March 31, 2010</td>
</tr>
<tr>
<td>15</td>
<td>Orissa</td>
<td>Dhenkanal Urban Co-op Bank</td>
<td>March 31, 2010</td>
</tr>
<tr>
<td>16</td>
<td>Andhra Pradesh</td>
<td>National Co-op Bank Ltd.</td>
<td>April 7, 2010</td>
</tr>
<tr>
<td>17</td>
<td>Maharashtra</td>
<td>Rajeshwar Yuvak Vikas Sah Bank Ltd.</td>
<td>April 19, 2010</td>
</tr>
<tr>
<td>18</td>
<td>West Bengal</td>
<td>Ramkrishnapur Co-op Bank Ltd.</td>
<td>June 17, 2010</td>
</tr>
<tr>
<td>19</td>
<td>Karnataka</td>
<td>Belgaum Catholic Co-op Bank Ltd.</td>
<td>August 3, 2010</td>
</tr>
<tr>
<td>20</td>
<td>Gujarat</td>
<td>Boriavi People Co-op Bank Ltd.</td>
<td>November 19, 2010</td>
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</tr>
<tr>
<td>21</td>
<td>Assam</td>
<td>Golghat Urban Co-op Bank Ltd.</td>
<td>December 16, 2010</td>
</tr>
<tr>
<td>22</td>
<td>Maharashtra</td>
<td>Dadasaheb Rawal Co-op Bank Ltd.</td>
<td>January 4, 2011</td>
</tr>
<tr>
<td>23</td>
<td>Maharashtra</td>
<td>Agrasen Urban Co-op Bank Ltd.</td>
<td>February 15, 2011</td>
</tr>
<tr>
<td>24</td>
<td>Maharashtra</td>
<td>Memon Co-op Bank Ltd.</td>
<td>April 18, 2011</td>
</tr>
<tr>
<td>25</td>
<td>Maharashtra</td>
<td>Indira Shramik Mahila Nagrik Sahakari Bank Ltd.</td>
<td>April 25, 2011</td>
</tr>
<tr>
<td>26</td>
<td>Maharashtra</td>
<td>Sri Balaji Co-op Bank Ltd.</td>
<td>April 25, 2011</td>
</tr>
<tr>
<td>27</td>
<td>Maharashtra</td>
<td>Siddharth Sahakari Bank Ltd.</td>
<td>June 13, 2011</td>
</tr>
<tr>
<td>28</td>
<td>Gujarat</td>
<td>Vaso Co-operative Bank Ltd.</td>
<td>October 4, 2011</td>
</tr>
<tr>
<td>29</td>
<td>Maharashtra</td>
<td>Solapur Nagari Audyogik Sah Bank Ltd.</td>
<td>November 5, 2011</td>
</tr>
<tr>
<td>30</td>
<td>Maharashtra</td>
<td>Bhandari Co-op Bank Ltd.</td>
<td>November 11, 2011</td>
</tr>
<tr>
<td>31</td>
<td>Maharashtra</td>
<td>Bharat Urban Co-op Bank Ltd.</td>
<td>November 25, 2011</td>
</tr>
<tr>
<td>32</td>
<td>Maharashtra</td>
<td>The Veerashaiva Co-op Bank Ltd.</td>
<td>December 30, 2011</td>
</tr>
</tbody>
</table>

Source: Retrieved from the website of Deposit Insurance and Credit Guarantee Corporation (http://www.digc.org.in) on 1st August 2013.

Bank Failures can be avoided with the help of bank rating services which analysis the banks’ strength, business models and exposure to various risks. However, some bank failures come out of nowhere and cannot be predicted by outsiders.
4.5 ETHICS AND ELECTRONIC BANKING:

Government of India has enacted The Information Technology Act, 2000, in order to provide legal recognition for transactions carried out by means of electronic data interchange and other means of electronic communication, commonly referred to as ‘electronic commerce’. The Act, which has also drawn upon the Model Law, came into force with effect from October 17, 2000, which has also amended certain provisions of the Indian Penal Code, the Indian Evidence Act, 1872, The Bankers Book of Evidence Act, 1891 and Reserve Bank of India Act 1934 in order to facilitate e-commerce in India.

E-banking allows the customers of a financial institution to conduct financial transactions on a secure website operated by the bank. E-banking relates to “Electronic banking” or "Virtual Banking" or "Online Banking" or “Internet Banking”.

In the course of providing internet banking services the banks in India are facing new challenges relating to online opening of accounts, authentication, secrecy of customers accounts, non-repudiation, liability standards and consumer protection, etc., each of which has been examined in the context of existing legal framework. The Information Technology Act, 2000, in Section 72 has provided for penalty for breach of privacy and confidentiality. Further, Section 79 of the Act has also provided for exclusion of liability of a network service provider for data travelling through their network subject to certain conditions.

Gips (1994) stated that computers are rapidly changing the world of business, trade, travel, education etc. But still they pose severe ethical and social issues viz; potential invasion of privacy through data banks, both public and private, potential for theft and fraud, fear of critical failure of hardware and software database where the
accounts of several customers are stored, increasing the gap between the educated and uneducated giving more power to those who have the accessibility to the computers. Gupta et al. (1994) highlighted that information technology provides more data, speeds up computing but at the same time there are also loss of privacy and decision making power for the individual and creates social stress by relocating human labour. Dutta (2013) referred that in an epoch of IT, e-banking is playing a vital role in customer satisfaction and with the extensive application of technology has enhanced customer expectation, especially on the aspects of speed and quality of service delivery.

E-banking is a result of the growing expectations of bank's customers which ease the customers by:

- Viewing of account balances and recent transactions.
- The operating cost per unit services is lower for the banks.
- It offers convenience to the customers as they are not required to go to the bank's premises.
- There is very low incidence of errors.
- The customer can obtain funds and mini statement at any time from ATM machines.
- The credit cards and debit cards enables the customers to obtain discounts from retail outlets.
- The customer can easily transfer the funds from one place to another place electronically.
- It facilitates the customers to pay their electricity bills, mobile bills, DTH recharge etc.
Even with so many advantages of online banking it suffers from serious loopholes. Most of the attacks on online banking used today are based on deceiving the user to steal login data and valid PIN’s. The common examples for those attacks are phishing (i.e. it is a way of attempting to acquire information such as usernames, passwords, and credit card details by masquerading as a trustworthy entity in an electronic communication) and pharming (i.e. a hacker's attack intended to redirect a website's traffic to another, bogus site). Cross-site scripting and keylogger or Trojan horses (it is a standalone malicious program which may give full control of infected PC to another PC) can also be used to steal login information. In case of Salami Slicing the technique works under the assumption that if small quantities of money are shaved from a lot of balances that are closely checked, these shavings are combined in a central account which would swell to a large amount over the time. The interest posted to the bank is not often checked by its owners to the nearest paise; hence a fraudster with access to an interest payment program could divert into his account all hundredths of paise in interest that would be credited later to the real owner’s account.

Some of the countermeasures taken up are digital certificates (it is an electronic document which uses a digital signature to bind a public key with an identity — information such as the name of a person or an organization, their address, and so forth) are used against phishing and pharming, the use of class-3 card readers is a measure to avoid manipulation of transactions by the software in signature based online banking variants. To protect their systems against Trojan horses, where the computer code is blocked which helps to transfer the money to the criminal’s bank account, the users should use virus scanners (Antivirus or anti-virus software is used to prevent, detect, and remove malware, including but not limited to computer viruses,
One of the major concerns associated with e-banking has been that the Internet banking transactions may become untraceable and are incredibly mobile and may easily be anonymous and may not leave a traditional audit trail by allowing instantaneous transfer of funds. It is pertinent to note that money-laundering transactions are cash transactions leaving no paper trail. Such an apprehension will be more in the case of use of electronic money or e-cash. In the case of Internet Banking the transactions are initiated and concluded between designated accounts. Further, Section 11 of the proposed Prevention of Money Laundering Bill, 1999 imposes an obligation on every Banking Company, Financial Institution and intermediary to maintain a record of all the transactions or series of transactions taking place within a month, the nature and value of which may be prescribed by the Central Government. These records are to be maintained for a period of five years from the date of cessation of the transaction between the client and the banking company or the financial institution or the intermediary. This would apply to banks offering physical or Internet banking services. This will adequately guard against any misuse of the Internet banking services for the purpose of money laundering. Further the requirement of the banking companies to preserve specified ledgers, registers and other records for a period of 5 to 8 years, as per the Banking Companies (Period of Preservation of Records) Rules, 1985 promulgated by the Central Government also adequately takes care of this concern.

Electronic banking and electronic commerce are now seen as an inevitable aspect of financial services. Consideration of ethics of e-business has been inclined to focus on areas relating to the fragility of information collected and held electronically
and transferred via computer-mediated communication. These include privacy of information about individuals, accuracy of information, ownership of information and intellectual property.

4.6 BANK EMPLOYEE BEHAVIOUR:

The Indian banks gives due importance in maintenance of ethical standards and practices. Indecent or discourteous behaviour with customers, employees, superiors etc., failure of due diligence in any transactions to avoid any possibilities of a fraud or money laundering, theft or pilferage or any dishonest act, involvement in any act in the area of corruption, misuse of office, criminal offences, suspected or actual fraud etc. will call for severe punishment and penalty. The banks have mentioned that they will have zero tolerance if any employee breaches the code of conduct and ethics. Every bank has got their own set of ethical norms and it is greatly expected that the employees duly comply them during the execution of their work.

Ethical behaviour builds trust, trust builds confidence and confidence builds profitable business relationships with customers, suppliers, investors, employees, creditors, and the general public (Bhalla and Ramu, 2006). Personal Ethics has a great influence on an individual’s professional life. An individual has her or his own code of personal ethics which is eventually developed at home, at school, at religious houses and lately are also influenced from the media. An individual who has a strong sense of personal ethics is quite unlikely that he will deviate from it and indulge into unethical activities. In a nutshell, professional ethics is not independent of personal ethics (Hill and Jain, 2010). Hurst (2004) strongly stated that the rising questionable behaviour of the employees and the executives imposes crucial questions as to how the corporate ethics can be improved to eliminate such misconduct from a business
house. Adam (2012) opines that once a person joins the bank and gives his acceptance to the job offer he then has to mandatorily abide by the bank’s code of conduct and professionalism. Failure on the part of the newly appointed employee to act accordingly will invite strict action or even penalty. Flint (2013) asserted that the banks should regularly carry out surveys, appraisals and mystery shopping to test good and bad behaviour, to make sure employees understand what is expected of them and to understand what drives customer loyalty. Companies should also be able to provide “evidence” for how “ethics and values are taught and reinforced”, such as “rewarding those who escalate their concerns.” Dutta (2013) stated that good employee behaviour also helps in generating business for banks. A satisfied customer in terms of bank service as well as cordial behaviour from the banker remains loyal to the organisation even if they have to pay more in comparison to other banks. A customer may even shift his bank account if he encounters any negative experience with the banker. Technology has undoubtedly helped in raising the level of customer satisfaction but ultimately it is the employee’s commitment towards their service and better professional behaviour which helps for building up a congenial relationship with the customers. Messick and Bazerman (1996) affirmed in their study that sometimes people do not even realise that they have committed an unethical doing simply because they fail to question themselves whether their act or decision is correct or not. Bhalla and Ramu (2006) further referred that the key reasons for unethical behaviour are- immediate gratification, self-fulfillment and short – term return. The employees are usually perplexed in the mid-way between corporate goals for growth and profit and how to accomplish it by being ethical.
4.6.2 DISCIPLINARY ACTIONS TAKEN BY THE BANKS:

The bank will take all the necessary action on the violation of the professional behaviour by any employee. However, the action will depend upon the nature and seriousness of the non-compliance of the standard. These actions can be divided into Cautionary Action, Deterrent Action and Capital Action.

TYPES OF ACTION AGAINST THE DEFAULTER OF THE BANK’S CODE:

The following are the three main types of action against the defaulter;

(i) CAUTIONARY ACTION:

- Condoning, advising, warning, censuring, etc
- Imposition of fine
- Suspension from employment for a certain period of time
• Adversely impacting annual performance rating
• Withholding of increment
• Withholding of performance linked bonus / incentive (partly)

(ii) DETERRENT ACTION:
• Recovery of full / partial monetary loss caused or likely to be caused to the Company
• Suspension from employment for a certain period of time
• Withholding of increments
• Withholding of Performance linked bonus / incentive
• Withholding of promotion
• Demoting to the lower grade or level
• Reduction in basic salary

(iii) CAPITAL ACTION:
• Termination of services
• Dismissal from services

4.7 CORPORATE SOCIAL RESPONSIBILITY OF BANKING SECTOR:

Sudha (2008) has highlighted the views of social responsibility by few scholars:

Koontz and O’Donnell opined that, “Social responsibility is the personal obligation of everyone, as he acts in his own interest, to assure that the rights and legitimate interests of all others are not infringed.” Nicholas Siropolis defined it as, “The circle of care and concern that a business has for the well-being of society.” Milton Friedman referred that, “There is one and only one social responsibility of business i.e. to use its resources and
engage in activities designed to increase its profits so long as it stays within the rules of the game which is to say it engages in open and free competition without deception and fraud." Peter F. Drucker stated that, “Business should develop concern for society and pursue welfare activities which should form an important area of operation. It is a demand that quality of life becomes the business of business. The new demand for business is to make social values and beliefs, create freedom for individual and altogether produce good society.”

Goyder (1951) identified four principal objectives of a responsible business;

- The extension, development and improvement of the company’s business and the building up of its financial independence.
- The payment of fair and regular dividends to the shareholders.
- The payment of fair wages under the best possible conditions to the workers.
- The reduction in the prices to be charged to the consumers.

He further recognised some secondary objectives, the vital ones are:

- To enhance labour welfare.
- To enhance customer service and goodwill.
- To assist in developing and promoting the amenities in the locality.
- To assist in developing the industry of which the firm is a member.
- To contribute to the national goals.

Pande (1994) affirmed that in the early 1960’s-70’s there was a great debate regarding “corporate social responsibility” globally. Prof. Theodore Levitt of Harvard Business School stated that “corporate social responsibility makes good sense if it makes good economic sense – and not infrequently it does. But if something does not make economic sense, sentiment or idealism ought not to let it in the door.” Friedman (1970) avowed that an organisation should not undertake social expenditures beyond
those authorised by the law because indulging into social activities afar its requirement will reduce its profits which is not enviable for a business. According to Friedman there is only one social responsibility of a corporate i.e. reaping more profits, so that it stays within the rules of law. According to Carroll (1979) there are four categories of obligations of corporate performance, viz; economic (satisfying the economic needs of the society and generating surplus), legal (obeying the rules and regulations framed), ethical (complying certain norms which the society expects from the business) and discretionary (voluntary contribution of the business for social causes). However, later Carroll (1991) presented the different categories of responsibilities as a pyramid of corporate social responsibility. The base is the economic responsibilities succeeded by legal, ethical and philanthropic responsibilities.

“CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time” Carroll (1999). Bhalla and Ramu (2006) avowed that CSR at times are taken in synonyms with corporate philanthropy or compliance with law. However these two concepts are not similar whereby social responsibility focuses on organizational functional behaviour and its impact to the society. Mathias (1994) advocated that corporate ethical and social responsibility is an intense practical issue which requires the interest of the top management. It will undoubtedly bring heavy burden to the management but it will also reap its own reward. He further holds the view that ethics and social responsibility is vital for existence because of intense competitive pressure. Sundaram et al. (1994) opined that corporate social responsibility is not only restricted to the organisation and it too calls for responsibility of the employees towards the organisation and society at large. Thus the firm’s social responsibility
covers reforming the employees both individually and collectively. Donahue (1994) affirmed that if the government of India would restrict itself to building the required social and physical infrastructure, it is maintained that the natural forces of self-interest in the marketplace would be released and India would experience greater economic growth, and this would be a social responsible course of action. Mathias (1994) stated that social responsibility has lately drawn the attention of the general public who has become more articulate to the matters regarding the ecology, fair play etc. The social responsibility of a business is a practical application of its ethics to issues that concerns the community. Lal (1994) affirmed that the role of a public sector involves a humanistic approach where the creation of employment, society responsibility, and welfare is given more importance than earning more profit. Gupta (1994) opined that every manager in an organisation must be administrated by the self-regulatory mechanism i.e. ethics and social responsibility. As per the new notion the organisations have realised that they will have a tough stand in the era of international competition if they are not identified as fair to the society at large. Swaminathan (1994) advocated that an organisation has a great social responsibility not only towards the eco-system but also for the various stakeholders. Most importantly the consumers who are considered as the king must not be deceived with bogus advertising, they should be provided with the highest quality compatible with the price that is charged for the product. Safety is an ethical requirement and every organisation should compulsorily make a risk assessment at all the levels of manufacturing and transportation. Imparting education to the buyers is an essential part of ethics of safety in manufacturing. Again for the employees apart from giving them congenial working condition and safety at work, there must not be any gender biasness, sexual harassments, job security with no ‘hire and fire policy’. Viswesvaran
et al. (1998) referred that CSR increases the reputation and trust of an organisation for a person seeking for a job who did not have any interaction with the organisation earlier. Hurst (2004) opined that news media should play an active role in educating the consumers on socially and environmentally responsible business practices and the role they can play to build a sustainable future. Cherunilam (2010) referred that just like an individual, corporate are also an indispensable part of the society and that their behaviour shall be guided by certain social norms. Gautam and Singh (2010) opined that in India, CSR is known from ancient time as social duty or charity, which through different ages is changing its nature in broader aspect, now generally known as CSR. It is a concept that reduces costs and risks, increases the brand value and reputation, effectiveness and the efficiency of employees, improves transparency, and clarity in the working environment of the business. Pillai (2012) opines that CSR is one such area of corporate behavior and governance that needs to be addressed and effectively implemented in the organizations. It is an effective tool that synergizes the efforts of organisation towards sustainable growth and development of social objective at large.

The Reserve Bank of India (2011) on stressing the need for CSR, suggested the banks to pay special attention towards integration of social and environmental concerns in their business operations to achieve sustainable development. RBI also pointed out to start non financial reporting (NFR) by the banks which will cover the work done by the banks towards the social, economic and environmental betterment of society. Sharma (2011) opines that Indian Banking Sector is found to be adopting an integrated approach of combining CSR with customer satisfaction voluntarily. Lately emphasis has been laid down to make the banking sector socially responsible. Senthikumar et al. (2011) viewed that embracing of CSR by the banks worldwide refers that we may be reaching a situation where parity has once again returned to the
banking sector. That is, the banking population may be perceived by the general public to be socially responsible in all sense. Sharma (2011) observed from his study that the public sector banks have emphasised primarily on rural development, women empowerment, poverty eradication, community welfare, vocational training, education and employment. The CSR activities undertaken by the private banks include enhancement of education and employment, community development, child welfare, environment protection, health care and rural development. Sharma and Mani (2013) had identified none variables to access the corporate social responsibility of the banks, viz; rural branch expansion, priority lending sector, environment protection, community welfare, women’s welfare, farmer’s welfare, new initiative related to CSR, financial literacy and education. Sharma (2011) stated that though the public and private sector banks have realized the importance and necessity of CSR but their strategy and concerned areas are diverse. The core CSR activities undertaken by the public sector banks consist of rural development and removal of gender inequalities, whereas the CSR activities of the private sector banks are focused on education and employment, performance i.e., reporting of CSR activities. It was further found that some banks made fake gestures in respect of their efforts for socio-environmental concerns. In fact there is a great need for enacting some stringent regulatory provisions to ensure the adherence to social responsibility principles. Mukherjee (2012) had intended to focus on financial inclusion as a matter of social responsibility for the commercial banks in India. He critically examined the whether promotion of financial inclusion is an economic or legal or ethical or discretionary obligation of the banks. Barrosa (2012) has emphasized the significance of “Works in collaboration”, mainly with non-governmental organizations or non-governmental development organizations, in designing and implementing corporate social
responsibility programs. Sharma and Mani (2013) opines that the public sector banks have overall highest contribution in CSR activities. Private sector banks and foreign banks are still lagging in this area. There are some banks which have failed to meet the regulatory requirement of Priority sector lending and rural branch expansion.

CSR reporting calls for reflection of corporate ethical practices, transparency, sensitivity to the environmental issues, social commitment and labour welfare practices of business houses. Under the Companies Act, 2013, certain classes of entities are required to shell out two percent of their three years average annual profit towards CSR activities. The Schedule VII of the Companies Act provides a list of activities which may be considered as CSR. The Schedule also mentions that “other matters as may be prescribed” could be CSR work. The Indian Ministry of Corporate Affairs stated on October 2013 that the CSR norms would be framed in a transparent manner and kept as open ended as possible. (Source: The Assam Tribune, 6th October, 2013, pp. 11)

However, the CSR has been made mandatory for the corporate from 1st April 2014 and all the companies with the turnover of Rs. 1,000 crore and more or a net worth of Rs. 500 crore and more or net profit of Rs. 5 crore and more- will have to spend at least two percent of their three year average profit every year on CSR activities.

The CSR rating in India is lately done by Karmayog and it be seen that none of the bank could secure the highest level i.e. Level 5.
Table 4.7.1: CSR rating of Indian commercial bank

<table>
<thead>
<tr>
<th>LEVEL (0-5)</th>
<th>No. of Banks</th>
<th>Name of Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 0</td>
<td>3</td>
<td>City Union Bank, Karur Vysya Bank, Vijay Bank</td>
</tr>
<tr>
<td>Level 1</td>
<td>6</td>
<td><strong>Central Bank of India</strong>, Indusind Bank, Karnataka Bank, Kotak Mahindra Bank, South Indian Bank and UCO Bank</td>
</tr>
<tr>
<td>Level 3</td>
<td>11</td>
<td><strong>Axis Bank</strong>, Canara Bank, Dena Bank, ICICI Bank, Indian Bank, ING Vysya Bank, Jammu and Kashmir Bank, Oriental Bank, Punjab National Bank, <strong>State Bank of India</strong> and Union Bank of India</td>
</tr>
<tr>
<td>Level 4</td>
<td>1</td>
<td>Yes Bank</td>
</tr>
<tr>
<td>Level 5</td>
<td>Nil</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Compiled from Karmayog’s Report 2009-10 and Sharma (2011)*

Sharma (2011) further referred that since there is no uniform standard in reporting and thereby, comparison cannot be made between the banks whether in public or private sector. Absence of mandatory provisions for reporting is yet another factor which causes negligence. The bank also fails to update their website relating to their CSR activities and the bank employees too find it hard to provide accurate information. Gautam and Singh (2010) opine that the need of the hour is to build a structured and a planned CSR approach as many companies are making token gestures towards CSR.
4.7.1 CSR ACTIVITIES OF INDIAN BANKS:

Some of the CSR activities undertaken by the selected banks are:

i. STATE BANK OF INDIA (SBI):

Sharma (2011) highlighted that (SBI), the oldest bank has also adopted green banking initiatives in its lending operations. Recognizing the warning of global warming, bank has decided to initiate urgent measures to combat the climate change through envisaging two pronged approach viz. i) to reduce the bank’s own carbon footprint and ii) to sensitize the Bank’s clients to adopt low carbon emission practices. As a signal of bank’s sincerity and urge in its efforts bank has installed windmills for the bank’s captive use with a view to substitute the polluting power with green power.

Corporate Social Responsibility has always been a part of the State Bank of India covering various social, environmental and welfare activities.

Focus areas for their CSR activities are:

- Supporting Education
- Supporting Healthcare
- Supporting girl children and child development
- Assistance to poor and underprivileged
- Environment protection
- Clean Energy
- Entrepreneur development programme
- Help in National calamities
ii. CENTRAL BANK OF INDIA:

The core areas of CSR of the Central Bank of India are education and rural development. Central Bank of India has been bestowed with prestigious ‘Greentech’ CSR Award for its active role in CSR activities towards the upliftment of the poor and providing help to needy and weaker sections of the society. The bank has also received the Asian CSR Leadership Award 2012 and has secured the 6th position.

Central Bank of India under the Banner of Cent Sanskriti-A Ladies Wing for CSR activities is engaged in doing number of programmes to help and support the needy people under the umbrella of CSR. The bank is credited for organising blood donation camps as well as conducting eye screening camp and thereby benefitting a number of people. The bank has also donated transport vehicle to the hospitals and meal distribution vehicle to provide mid day meal to the children.

iii. AXIS BANK:

Axis Bank have contributed and implemented financial inclusion programmes to extend micro-finance to the poorest of the poor through their ‘Targeting the Hard Core Programme’. The program earned accolades from a wide section of people – policymakers, opinion leaders, beneficiaries and development critics.

- Axis Bank has contributed 1% of their profit in the year 2011 to revive the live of the poor segment of the society.

- The bank have also provided education support under the program ‘Balwadis’ to the underprivileged children between the age group 2-6 living in large urban slum clusters so that it creates a strong foundation and inculcates social and cultural awareness in them.
• In order to enhance the performance of the children and reduce the dropout rates owing to bad performance, an endeavour has been initiated by the bank to provide remedial or supplementary classes to the children studying in municipality or government schools with special focus on girl child.

• The bank regularly organizes blood donation drive and the responses received through registration and participation has always being overwhelming.

iv. HDFC BANK:

HDFC Bank has undertaken several involvements and projects through the year to create a positive impact on the society while doing business. These projects take shape in many ways from corporate philanthropy to employee driven projects. These projects take shape in many ways from corporate philanthropy to employee driven projects. Few CSR activities undertaken by the bank are:

• COMMUNITY INITIATIVE: The bank is commissioning a number of need-based projects as per the need of the people so that it brings a positive change into people's lives. For instance: constructing rain water harvesting system in three villages of Maharashtra.

• EDUCATION: HDFC Bank not only recognises the importance and relevance of child education but also strengthening and ensuring the quality of education that the children receive. The Bank also recognises its responsibility to spread financial literacy and supports projects that aim at inculcating the same amongst members of society. The ‘Galli School Project’ runs 20 pre-schools in the by-lanes of a slum community in Delhi.
• SUSTAINABLE LIVELIHOOD: HDFC Bank's Sustainable Livelihood Initiative is a business model that has helped to empower thousands of people, particularly women, in rural parts of India. Through this initiative, the Bank reaches out to the un-banked and under-banked segment of the population and in doing so, helps as many people as possible at the bottom of the pyramid by providing them with livelihood finance. It involves a holistic approach - from offering training and enhancing occupation skills to providing credit counseling, financial literacy and market linkages - which financially empowers people and brings them into the banking fold.

• FINANCIAL LITERACY: HDFC Bank as part of its commitment towards financial inclusion provides affordable access to basic banking products and banking services to the hitherto excluded and the often underprivileged and disadvantaged sections of the society. Financial literacy projects in 600 schools across Andhra Pradesh and Odisha, inculcating social and financial habits among students aged 8 to 14.

• TRAINING CAMPS: HDFC Bank's livelihood initiatives are aimed at training and capacity development of youth and women from economically weaker sections of society and to empower them to gain access to opportunities and growth. HDFC Bank's livelihood support programmes are aimed at empowering competency-based, skill-oriented technical and vocational training. HDFC Bank tied up with Hope Foundation for providing skill based training in computers, life skills and retail management courses to 100 youth in Kolar district, Karnataka. 47% successful placements have already been made possible through various industry tie ups.

4.8 ETHICS AND CORPORATE GOVERNANCE:

Good banking business begins with a commitment to the highest ethical standards and adherence to the guiding principles of integrity, respect, honesty,
quality, responsibility, and fairness. These guiding principles are the foundation of an organisation’s culture. By operating with integrity and transparency, an organisation can build and deepen credibility and trust of their employees, customers and all other stakeholders. Lately, in the business world Corporate Governance has become a catchphrase where every company upholds it and asserts to practice it. Corporate governance is a multi-faceted subject with many layers of complexity. An important part of corporate governance deals with accountability, fiduciary duty and mechanisms of auditing and control.

Organisation for Economic Co-operation and Development (OECD) defines corporate governance as “Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making.” (Source: www.oecd.org/)

Lack of ethics played a significant role in the erosion of governance standards in banking institutions. Ethics are principles that recommend proper conduct, helps in distinguishing right from wrong and drive people to do the right thing even when no one is observing. India has witnessed a few high profile cases which have shaken the public trust in the financial system. Satyam, which was once regarded as having good corporate governance, was discovered to be involved in one of India’s biggest corporate frauds. The 1992 securities scam which brought out the nexus between bankers and brokers led to massive overhaul of the financial system in India. The unethical practices adopted by some banks in recent past in selling inappropriate financial products (exotic derivatives) to their corporate customers and the unfair and
unscrupulous methods adopted by some microfinance institutions (MFIs) in their operations are some recent reminders of erosion of ethics in the financial system.

Empirical evidence reveals that businesses with higher ethics and governance practices generate bigger profits, higher returns on equity and larger dividend yields. Importantly, good corporate governance also shows up in such soft areas as employee motivation, work culture, corporate value system and corporate image. Conversely, the failure of high profile companies such as BCCI, Enron, WorldCom and Parmalat was a clear indication of the damage bad corporate governance can inflict.

The corporate governance framework consists of:

(1) Explicit and implicit contracts between the company and the stakeholders for the distribution of responsibilities, rights, and rewards;

(2) Procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles; and

(3) Procedures for proper supervision, control, and information-flows to serve as a system of checks and balances. (Source: http://www.businessdictionary.com)

4.8.1 CORPORATE GOVERNANCE IN THE INTERNATIONAL SCENARIO:

Corporate Governance has come into the focus of the interest of the public because of the number of organisation’s failure which has adversely affected not only the stakeholders but also the society at large. These organisations failed not only because of the adoption of unethical practices but also due to weaker corporate governance in the areas of inexperienced directors, overly lucrative compensation and unequal voting rights (Anderson and Orsagh, 2004).
Table 4.8.1 (i): Glance of Corporate Governance at the International Scenario

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NAME OF THE COMMITTEE/BODY</th>
<th>COUNTRY</th>
<th>AREAS COVERED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Sir Adrian Cadbury Committee</td>
<td>UK</td>
<td>Financial Aspects of Corporate Governance</td>
</tr>
<tr>
<td>1994</td>
<td>Mervyn E. King’s Committee</td>
<td>South Africa</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>1995</td>
<td>Greenbury Committee,</td>
<td>UK</td>
<td>Directors’ Remuneration</td>
</tr>
<tr>
<td>1998</td>
<td>Hampel Committee,</td>
<td>UK</td>
<td>Combine Code of Best Practices</td>
</tr>
<tr>
<td>1999</td>
<td>Blue Ribbon Committee</td>
<td>USA</td>
<td>Improving the Effectiveness of Corporate Audit Committees</td>
</tr>
<tr>
<td>1999 (revised in 2004)</td>
<td>OECD</td>
<td></td>
<td>Principles of Corporate Governance</td>
</tr>
<tr>
<td>1999 (updated in 2005)</td>
<td>CACG</td>
<td></td>
<td>Principles for Corporate Governance in Commonwealth</td>
</tr>
<tr>
<td>1999</td>
<td>Basel Committee</td>
<td></td>
<td>Enhancing corporate governance</td>
</tr>
<tr>
<td>2000</td>
<td>Euro shareholders Corporate Governance Guidelines</td>
<td></td>
<td>Disclosure of information in the Annual reports</td>
</tr>
<tr>
<td>2003</td>
<td>Derek Higgs Committee,</td>
<td>UK</td>
<td>Review of role of effectiveness of Nonexecutive Directors</td>
</tr>
<tr>
<td>2003</td>
<td>ASX Corporate Governance Council</td>
<td>Australia</td>
<td>Principles of Good Corporate Governance and Best Practice Recommendations</td>
</tr>
</tbody>
</table>

Source: Chaudhury et al. (2011), Economic India info services, cited from the regulatory norms of corporate governance in India and Bihari (2012)
4.8.2 CORPORATE GOVERNANCE IN INDIA:

The formal policy announcement in regard to corporate governance was first made by Dr. Bimal Jalan in the mid-term review of the Monetary and Credit Policy on October 21, 2001. A Consultative Group was constituted in November 2001 under the Chairmanship of Dr. A.S. Ganguly, with a view to strengthen the internal supervisory role of the Boards. An Advisory Group on Corporate Governance under the chairmanship of Dr. R.H. Patil had earlier submitted its report in March 2001 which examined the issues relating to corporate governance in banks in India including the public sector banks and made recommendations to bring the governance standards in India on par with the best international standards. Some significant observations were made by the Advisory Group on Banking Supervision under the chairmanship of M.S. Verma who submitted its report in January 2003. Considering all the important recommendations, the RBI had taken up numerous measures to strengthen the corporate governance in the Indian banking sector. Even though almost all the private sector banks has duly complied with the provisions regarding governance but the public sector banks has a way to go for its adoption. Observers have been appointed as a transitional measure mostly in respect of those banks which are yet to fully comply with the Reserve Bank’s guidelines of ownership of governance.

Apart from the structure outlined by the Companies Act 1956 on Corporate Governance, the Confederation of Indian Industry (CII) had taken up an initiative to draw a voluntary code of corporate governance with the assistance of a task force which finally got the approval in April 1998 known as “Desirable Corporate Governance: A Code”. Thereafter, it was followed by the Ramakrishna Commission on PSU corporate Governance, the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance in December 2000 and the Narayana Murthy
Committee (SEBI) recommendations in 2003. Modification was further made in the Companies Act 1956 by the Department of Company Affairs (DCA) to incorporate corporate governance provisions relating to the audit committee and independent directors.

Table 4.8.2 (i): Glimpse of Corporate Governance at the National Setting

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ACT/COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>The Companies Act</td>
</tr>
<tr>
<td>1956</td>
<td>Securities Contract Regulation Act</td>
</tr>
<tr>
<td>1969</td>
<td>Monopolies and Restrictive Trade Practices Act, (replaced by new Competition Law),</td>
</tr>
<tr>
<td>1992</td>
<td>Securities and Exchange Board of India Act, Clause 49</td>
</tr>
<tr>
<td>1996</td>
<td>The Depositories Act,</td>
</tr>
<tr>
<td>1996</td>
<td>Arbitration and Conciliation Act,</td>
</tr>
<tr>
<td></td>
<td>SEBI Code on Corporate Governance,</td>
</tr>
<tr>
<td>1998</td>
<td>CII Code of desirable corporate governance</td>
</tr>
<tr>
<td>1999</td>
<td>UTI code of governance</td>
</tr>
<tr>
<td>2000</td>
<td>Foreign Exchange Management Act,</td>
</tr>
<tr>
<td>2000</td>
<td>Kumar Mangalam Birla Committee on Corporate Governance</td>
</tr>
<tr>
<td>2002</td>
<td>Naresh Chandra Committee</td>
</tr>
<tr>
<td>2003</td>
<td>N.R. Narayanamurthy Committee (SEBI).</td>
</tr>
</tbody>
</table>

Source: Chaudhury et al. (2011) and Chilumuri (2013)

It was realized that in India there should be diversified ownership model so that the ownership does not remain in the hands of one or few individuals which could be detrimental to the interest of the public. To ensure that ownership and control of banks are well diversified, guidelines on ownership and governance in private sector
banks were issued by the RBI in February 2005. Another key regulatory prescription in this regard is the requirement of RBI’s prior approval for any acquisition of shares in private sector banks resulting in a shareholding of 5% or more of the total paid up capital of the bank. Bihari (2012) advocated that banks are different from other corporate in key aspects and that makes corporate governance of banks not only different but also more critical. Effects of the failure of a company can be limited to the stakeholders, however in case of bank distress it will undoubtedly affect the functioning of the entire financial system. Corporate Governance is vital for banks because they mobilise and distribute the funds to the society; it affects the cost of capital of the firm and individual to whom fund is lend out, affects the bank’s risk taking etc.

Corporate Governance is different in the banking sector mainly due to two vital parameters i.e. level of opaqueness in their activity and greater involvement of the government and RBI in its operation. The opaqueness in the banking system creates information irregularities between the insiders (management) and outsiders (owners and creditors). The very nature of banking business makes it easier for the management to resort to unethical practices. (Source: Retrieved from http://www.iica.in/images/RBI_and_Gatekeepers_of_corporate_governance.pdf)

Prof. N. Balasubramanian, Indian Institute of Bank Management (source: Retrieved from http://www.iibm.ac.in) has highlighted the following:

UNIQUE DIMENSIONS IN BANK GOVERNANCE:

- Internal Fraud and External Fraud, Highly Likely, since cash/cash equivalents closest in grab-chain
- Employment Practices and Workplace Safety
- Product, Process, Banking Practices
• Damages to Physical Assets and IPR/Brands
• Business Disruption Major Threat
• Non-Compliance (Intentionally or Otherwise) with Laws, Rules, Regulations
• Consequences of (Non) Compliance Risk in Banks
  - Legal or Regulatory Sanctions
  - Financial or Reputational Loss

BANKS AS PROMOTERS OF GOOD GOVERNANCE:
• Prescribing Governance Standards at Borrowers (IFC, CalPERS, FIs)
• Encourage by Preferential Lending Rates, Other Terms
• Discourage by Adversarial Lending Rates, Other Terms
• A Measure of Strengthening Protection of Bank Assets, Hence Good for Bank’s Own Governance

Banks are interconnected in diverse, complex and oftentimes opaque ways underscoring their “contagion” potential. If a corporate fails, the fallout can be restricted to the stakeholders. If a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro-economy. The objectives of establishing ‘fit and proper’ norms for banks is to ensure that the supervisors are able to determine whether the entities are soundly and prudently managed and directed and whether key shareholders are a source of weakness to those entities. Some key parameters on which the supervisor may assess the effectiveness of governance include:

• Top management’s competence;
• Strategies and policies;
4.8.3 CORPORATE GOVERNANCE IN INDIAN PUBLIC AND PRIVATE SECTOR COMMERCIAL BANKS:

In the pre-reform era, there exist very few regulatory guidelines covering corporate governance of banks in India. It was reflective of the dominance of public sector banks and relatively few private banks. This scenario changed after the reforms in 1991 when public sector banks saw a dilution of government shareholding and a larger number of private sector banks came on the sight. These changes led to the development of revised and improved corporate governance after the post reform period.

Khandelwal Committee Report (June, 2010) recommends that:

- To meet the challenges of new age banking, Government to speed up reforms in corporate governance in PSBs.
- Government to review the scheme of Board constitution including its composition and selection methodology and bring in legislative changes, if necessary.
- Government to consider separating Chairman’s position from the position of Managing Director, in line with Corporate Governance voluntary guidelines 2009 issued by the Ministry of Corporate Affairs, Government of India.

Dr. Duvvuri Subbarao, Governor of the Reserve Bank of India, at the FICCI-IBA (Federation of Indian Chambers of Commerce & Industry – Indian
Banks’ Association), Conference (23rd August, 2011) has indentified the following aspects which are vital for bringing significant changes:

- First, the competition brought in by the entry of new private sector banks and their growing market share forced banks to pay greater attention to customer service.

- Second, post-reform, banking regulation shifted from being prescriptive to being prudential. This implied a shift in balance away from regulation and towards corporate governance. Banks now had greater freedom and flexibility to draw up their own business plans and implementation strategies consistent with their comparative advantage.

- Third, two reform measures pertaining to public sector banks – entry of institutional and retail shareholders and listing on stock exchanges – brought about marked changes in their corporate governance standards. On top of this, the listing requirements of SEBI enhanced the standards of disclosure and transparency.

- Fourth, to enable them to face the growing competition, public sector banks were accorded larger autonomy. They could now decide on virtually the entire gamut of human resources issues, and subject to prevailing regulation, were free to undertake acquisition of businesses, close or merge unviable branches, open overseas offices, set up subsidiaries, take up new lines of business or exit existing ones, all without any need for prior approval from the Government. All this meant that greater autonomy to the boards of public sector banks came with bigger responsibility.

- Lastly, a series of structural reforms raised the profile and importance of corporate governance in banks. The “structural” reform measures included
mandating a higher proportion of independent directors on the boards; inducting board members with diverse sets of skills and expertise; and setting up of board committees for key functions like risk management, compensation, investor grievances redressal and nomination of directors. Structural reforms were furthered by the implementation of the Ganguly Committee recommendations relating to the role and responsibilities of the boards of directors, training facilities for directors, and most importantly, application of “fit and proper” norms for directors.

It may be noted here that there is a basic difference between the private sector banks and public sector banks as far as the Reserve Bank’s role in governance matters relevant to banking is concerned. The current regulatory framework ensures, by and large, uniform treatment of private and public sector banks by the Reserve Bank in so far as prudential aspects are concerned. However, some of the governance aspects of public sector banks, though they have a bearing on prudential aspects, are exempted from applicability of the relevant provisions of the Banking Regulation Act, as they are governed by the respective legislations under which various public sector banks were set up. In brief, therefore, the approach of RBI has been to ensure, to the extent possible, uniform treatment of the public sector and the private sector banks in regard to prudential regulations. In regard to governance aspects relevant to banking, the RBI prescribes its policy framework for the private sector banks while suggesting to the government the same framework for adoption, as appropriate, consistent with the legal and policy imperatives.

RBI has asked banks to improve governance structure to ensure that there is minimum intervention of the board in the day-to-day operation (Source: Retrieved from http://articles.economictimes.indiatimes.com/2011-08-27/news/29934923).
With a view to improve corporate governance in private sector banks, the RBI had introduced a policy of bifurcation of the post of chairman and CEO and has implemented this policy firmly in all the private banks for nearly the last five years. The policy of having a part-time non-executive chairman and a full time managing director-cum-CEO, duly approved by the RBI, has not only served to improve the functioning of banks’ boards, but has also helped in creating a healthy environment for a free and frank discussions on the banks’ functioning, thereby strengthening the hands of independent directors in private banks considerably. Besides, RBI has been meticulously following a policy of not allowing the promoter of the private bank to be its chairman, but permitting appointment of only an independent professional to head a bank as its non-executive chairman which, in effect, has helped in ensuring the independence of the board from the clutches of the promoters.

But none of these policies and principles has been applied in the case of nationalised banks. The RBI had constituted a committee under the chairmanship of A.S Ganguly in 2005 to study the issue of bifurcation of the posts of chairman and managing director of banks, and the committee had recommended such a move. This was however implemented in the private sector in 2007. In public sector banks, barring State Bank of India and its subsidiaries, the position of chairman and managing director continues to be in the hands of a single individual who, by virtue of being both the chairman of the board and the CEO of the bank, would be able to influence the functioning of the bank according to his or her whim. There is, therefore, a need for change in the present composition of the boards by splitting the post of chairman and managing director in nationalised banks as well. The RBI should have the unfettered authority to appoint a thorough professional as the non-executive chairman of every PSB. The central bank should, however, ensure that this is not
meant to be a back-door entry for politicians to enter the banks, but an opportunity to cleanse the system and create an independent professional board for every bank. This could substantially improve corporate governance at the board level, thus helping to prevent unethical practices and unwarranted interferences in the operations of the PSBs. The other most important reform required to improve corporate governance in PSB’s is to restructure these banks to ‘limited’ companies and thus bring them under the ambit of the Companies Act. Since the days of nationalisation of these banks, many changes have taken place in the corporate India. Due to the large public holding in these banks, they should now be answerable to the large body of public shareholders. But the annual general meetings held by the PSBs these days, are a farce, as the ordinary public shareholders have virtually no role to play in such meetings as they are merely silent spectators.

RBI should take steps to amend the laws to create an appropriate corporate structure for these banks to make them more accountable to the public shareholders and comply with the listing guidelines, both in letter and spirit. This will also create a level playing field for the public as well as private banks and improve corporate governance standards across the board in the banking industry considerably.

**4.8.4 CORPORATE GOVERNANCE PRACTICE IN SELECT PUBLIC AND PRIVATE SECTOR BANKS:**

i) **STATE BANK OF INDIA:**

The SBI has its central board of directors who are entrusted with the major responsibilities of risk management, maximizing the stakeholder’s interest, monitoring and control etc. A detail about the functioning, meetings and attendance of the seven committees - Audit Committee, Risk Management Committee, Shareholders’ or Investors’ Grievance Committee of the Board, Special Committee of
the Board for Monitoring of Large Value Frauds, Customer Service Committee, IT Strategy Committee and Remuneration Committee, are duly reported. The bank also mentions in its report about the stakeholders services, fully makes disclosures and maintains transparency.

Chilumuri (2013) referred that SBI has confined to all the provisions relating to Corporate Governance formulated by the RBI as well as government. SBI being the largest commercial bank in India has satisfactorily performed in the areas of profit, assets, deposits, customer service and employee satisfaction. SBI regularly monitors the banking operations in diverse fields which have brought about transparency in the management processes. Even though the bank has followed the prerequisites and is high on its performance as it is the only Indian bank getting listed in Fortune 500 but still there are few lapses and the bank has enough scope to improve in the areas of internal control, credit risk management, customers’ service etc.

ii) CENTRAL BANK OF INDIA:

The Code of Corporate Governance of Central bank of India envisages and expects the following:

- Observance to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Full, fair, accurate, timely and meaningful disclosures in the periodic reports required to be filed by the Bank with government and regulatory agencies.
- Compliance with applicable laws, rules and regulations.
- To address misuse or misapplication of the Bank’s assets and resources.
• The highest level of confidentiality and fair dealing within and outside the bank.

GOOD CORPORATE GOVERNANCE PRACTICES FOLLOWED BY THE BANK:

Each member of the Board of Directors of the bank should adhere to the following so as to ensure compliance with good Corporate Governance practices.

(a) Do’s

• Regularly and effectively participating in the Board meetings.
• Thorough study of the board papers and enquires about follow-up reports on definite time schedule.
• Active involvement during the formulation of general policies.
• Recognizing the bank’s objectives and the government’s policies and varied laws and regulations.
• Maintaining confidentiality and secrecy of the Bank’s agenda papers, discussions at the Board/Committee Meetings, notes and Minutes.

(b) Don’ts

• Non-interference in the regular functioning of the bank with exception to Managing Director, Executive Directors and Core Management.
• Cautious regarding the secrecy of information that needs to be maintained regarding any component of the bank to anyone.
• Prohibition regarding display of logo or any distinct design of the bank on the bank officials’ personal visiting cards or letter heads, except Chairperson and Managing Director, Executive Directors and Core Management.
• Restricting sponsor of any proposal relating to loans, investments, buildings or sites for Bank’s premises, enlistment or empanelment of contractors, architects, auditors, doctors, lawyers and other professionals etc.
• Preventing in engaging in any activity or behaviour that will cause disturbance in maintaining discipline, good conduct and integrity of the staff.

iii) HDFC BANK:

HDFC Bank recognizes the importance of good corporate governance, which is generally accepted as a key factor in attaining fairness for all stakeholders and achieving organizational efficiency. HDFC Bank believes in adopting and adhering to best recognised 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 maximisation of their long term values. The cardinal principles such as independence, accountability, responsibility, transparency, fair and timely disclosures, credibility etc. serve as the means for implementing the philosophy of corporate governance in letter and spirit.

The compliance of the governance provisions is reflected in the bank’s annual report which is duly audited. The details relating to the composition of the Board of Director’s, details of attendance at the Bank’s Board Meetings directorship, membership and chairmanship in other companies for each director of the Bank, attendance and number of general meetings, details of remuneration and sitting fees of the directors, composition of audit/investors grievances/compensation/credit
approval/premise/risk monitoring/nomination/fraud monitoring/customer service committee, non-mandatory compliances are also fully disclosed.

iv) **AXIS BANK:**

The Axis bank's policy on Corporate Governance has been:

- Enhancing the long term interest of its shareholders, provide efficient management, adopt prudent risk management techniques and compliance with the required standards of capital adequacy, thereby protecting the interest of its other stakeholders such as depositors, creditors, customers, suppliers and employees.

- Recognizing the imperative role of the Board of Directors and the Management of the bank as the key vehicles for inducing and implementing good corporate governance. Identifying the importance of maintaining equality of treatment to all the stakeholders, transparency and accountability, as the doctrine for good corporate governance.

The Corporate Governance Report of Axis Bank forms a part of the Annual report which states in details about the composition of the Board of Directors which is governed by the Companies Act, 1956, the Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement. The business of the Board is also conducted through the following Committees constituted by the Board comprising of Audit committee, Risk management committee, Investor’s grievances committee, Remuneration committee, Nomination committee, Committee for monitoring large frauds, Customer service committee, Acquisition, divestment and merger committee, IT strategy committee etc. Detail regarding to the number of meetings and attendance held by the various committee, disclosure, general information to the shareholders, and means of communication are given the governance report.
END NOTES:


11. CSR mandatory for corporate from April 1, The Assam Tribune, 30th January, 2014, pp. 11


17. Flint, Douglas. (2013): The Telegraph, 22nd July


