## CHAPTER 10
SUGGESTIONS

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10.1: INTRODUCTION

This chapter includes the suggestions that are given to banks on the basis of findings of the study and personal observations.

10.2: GENERAL SUGGESTIONS

1. Corporate Governance standards should be made compulsory for the entire Indian banking industry:

Corporate Governance practices currently apply to only listed banks which trade in shares. This is by virtue of the Clause 49 of the Listing Agreement of the SEBI. Corporate Governance should be made compulsory for the entire Indian banking industry. Non-listed banks should also be brought under the purview of disclosure norms, thereby strengthening the entire banking system. Enforcement of corporate governance laws still remains a challenge as banks prefer to follow it in letter rather than in spirit. For the banks that are not listed under any stock exchange, the RBI can suggest a system of voluntary corporate governance reporting on the lines of Clause 49 of the Listing agreement.

2. External agency rating for corporate governance should be encouraged for all banks:

It is observed that not all banks go in for an external agency rating for corporate governance. However, as per the provisions of the Listing Agreement, all listed banks have to attach an Auditor’s Certificate on Corporate Governance issued by the external auditor in the Annual Report. An External Agency Rating for Corporate Governance also may be made compulsory for all banks. This will be beneficial in providing a sense of security to all the stakeholders.
of the bank and will let them know where the bank stands in terms of corporate governance standards.

The Reserve Bank of India can also suggest voluntary external agency rating for corporate governance. This will also show considerable initiative on part of the banks to go in for an external agency rating. This will definitely set these banks apart from those banks which do not go in for voluntary rating. This will unquestionably boost the investor’s confidence in these banks.

3. **Banks should take initiative and play an active role in development of their own corporate governance standards:**

   It has been observed that not a single bank has formulated its own policies for corporate governance. A stagnant framework of Corporate Governance is followed, wherein a policy is drafted and everyone follows it. The Reserve Bank of India and SEBI have formulated Corporate Governance policies that are to be followed by all listed banks in India. However, every bank is also free to develop its own corporate governance practices, in addition to the existing practices. **Banks should be encouraged to develop their own practices and standards for corporate governance.** This will add to the existing framework of corporate governance and also encourage a sense of competition amongst all banks.

4. **Incentives should be given to banks developing their own corporate governance mechanisms.**

   Incentives should be given to those banks that develop their own corporate governance codes and put it into practice besides following the procedures laid down by the regulating authorities. These corporate governance structures should then be monitored and necessary changes should be made therein from time to time. **Policies can be developed in areas of Board Composition wherein the number of independent directors can be increased. Also,**
modifications can be made in the areas of Risk-Management and Accounting standards to encompass maximum level of disclosures in books of accounts.

5. **The Board should be strengthened in order to exercise objective and independent judgment:**

It has been observed that not all banks feel that corporate governance has resulted in increased internal control exercised in the Bank and also increase in the responsibility of the Board of Directors. The Board should be made able to exercise objective and independent judgment for monitoring managerial performance and preventing conflicts of interest. Board Independence should be enhanced so that the directors are able to exercise unbiased and independent judgement during the decision-making process. Banks should be encouraged to have more independent directors on their boards. Standards of diligence should be similar for both full time and independent directors. Corporate Governance can be improved by increasing accountability and board independence.

6. **Disclosure standards should be bought to be at par with foreign banks:**

Many banks feel that disclosure standards in India are not at par with international standards. This shows that Indian banks follow comparatively lower standards of transparency and disclosures. Indian banks fall short of international standards in terms of extent of disclosure of financial information. Indian banks should be encouraged to make maximum disclosures in their statements. Disclosure standards should be increased in areas of risk management, balance-sheet disclosures, distribution of shareholding and related party-transactions.
7. **NPAs of the bank should be strictly controlled:**
   It has been observed that a considerable amount of losses incurred by banks are due to NPAs. Therefore, the lending process of the bank should be conducted in a fair and transparent manner and with a view to securing the long term availability and sustainability of the bank, subsequently maximizing long-term value. Information related to NPAs such as details of bad loans, interest lost on account of NPAs, classification of NPAs and security repossessed on account of NPAs should be properly disclosed in the annual reports.

8. **One uniform code for corporate governance should be developed for the global banking sector:**
   A single uniform code for corporate governance can be developed for the global banking sector. Globalisation has bought all the banks across all countries together. Nearly all banks have an international presence. A single uniform code will help to assess these banks on an equal platform. Such a code can be developed by an authority on the lines of the Basel Norms that have been developed by the Bank for International Settlements for the entire global banking industry across all countries and International Accounting Standards. Also, regulating authorities of various countries could come together to develop this code. This will lead to uniformity and certainly increase the standards of corporate governance followed by the banking industry.

9. **A Corporate Governance Committee should be made mandatory for all banks:**
   A Corporate Governance Committee should be established and be made mandatory in all banks. This committee should look after the corporate governance function in the bank. The Ethics and Compliance can function as a part of this Corporate Governance Committee.
10. **Corporate Governance should be a team effort:**
   Employee participation in the corporate governance structure should be encouraged in banks. The corporate governance function should not be the responsibility of only the top level management. All employees along all levels of management should be included in the corporate governance function and made accountable for their actions.

11. **Training programs should be conducted at all levels**
   Training programmes for corporate governance should be conducted at all levels in banks to make every employee aware of the importance of corporate governance. This will also encourage employees at all levels to contribute to the corporate governance policies of the bank.

12. **Remuneration levels should be adequate and commensurate with experience and qualifications across all banks:**
   It is observed that some banks felt that inadequate levels of remuneration are responsible for not attracting professional qualified talent on boards of banks. They also feel that there is no linking between performance and reward for employees in banks, especially nationalised banks. Thus motivation for employees remains low. Remuneration levels and incentives for good performance may be made equal with experience of employees and performance of the employees amongst all types of banks.

13. **Newer models of corporate governance should be developed in order to avoid stagnation:**
   A climate conducive to innovation and upgradation should be developed and newer models of corporate governance should be encouraged to keep up with the demands of the changing times. The researcher has suggested the following model of corporate governance for the banking sector.
The model given above is based on the following points:

1. **Risk Management Policies:**
Risk Management policies in the banking sector can be strengthened by improving lending practices which will ultimately result in decrease in NPAs. Also, the fair value of assets and liabilities should be included in the balance sheets on the similar lines of the United States of America and Australia. This will help in better understanding of risks.

2. **Incentives for development of own corporate governance codes:**
The Reserve Bank of India can provide incentives, for example, institute an ‘Award for Excellence in Voluntary Corporate
Governance’ to those banks that develop their own corporate governance standards and contribute to the existing framework. This will motivate the banks to contribute to existing standards

3. External Agency Rating for Corporate Governance:
The Reserve Bank of India can suggest voluntary External Agency Rating for all the banks. This will help the stakeholders to know where the bank stands in terms of Corporate Governance standards.

4. One Uniform Code of Corporate Governance:
The Reserve Bank of India, in discussion with Central Banks of other countries, may develop one single code for Corporate Governance applicable to the global banking industry. This will help to assess all banks on one single level.

5. Disclosure Standards:
Disclosure standards in the area of balance-sheet disclosures may be improved by including items such as distribution of shareholding, NPA information such as customer type wise NPAs and security repossessed on account of NPAs

6. New Committees can be formed:
A Corporate Governance Committee can be set up in banks with the sole objective of looking after the corporate governance function of the banks. Committees should be formed in Indian banks on the basis of Committees which have been formed in Foreign Banks such as Financial System Vulnerability (to look into financial crimes such as terrorist financing, system abuse, tax evasion etc), Brand Values (to take care of reputational risk and bank-customer relationship), Public Responsibility (to look into matters regarding public responsibility and welfare).

10.3: BANK-WISE SUGGESTIONS
10.3.1: Nationalised Banks

It is observed that Nationalised Banks follow comparatively lower standards of disclosures as compared to Private Banks. Many banks are also of the opinion that the boards of Nationalised banks are still influenced by the government as a stakeholder which affects Board Independence. Many also feel that these banks are averse and disinclined to change. These banks should form policies to encourage their directors to exercise unbiased and independent judgement during the decision-making process. Nationalised banks can improve their standards of disclosure and transparency by making the following disclosures:

1. Disclosing the selection criteria for the Board of Directors
2. Disclosing the Remuneration Policy
3. Disclosing the Remuneration paid to the Directors
4. Disclosing the Whistle-Blower Policy
5. Disclosing Information on Investor’s Survey conducted.
6. Disclosing the special resolutions passed during the Annual General Meetings
7. Disclosing the Audit Committee Report
8. Disclosing Risk Management policies
9. Disclosing information related to training of board members.

10.3.2: Private Banks

As compared to Nationalised Banks, Private Banks follow comparatively higher standards of disclosures. However, the level of transparency and disclosures can be increased in Private Banks by encompassing the following:

1. Disclosing the selection criteria for the Board of Directors
2. Disclosing Information on Investor’s Survey conducted.
3. Disclosing the Remuneration paid to the Directors
4. Disclosing the Audit Committee Report
5. Disclosing Information on Investor’s Survey conducted.

10.3.3: Foreign Banks

It has been observed that Indian corporate governance practices are not at par with international standards. However, it is suggested that Foreign Banks operating in India develop their own corporate governance codes with the assistance of the Reserve Bank of India and bring it into operation in India. These codes can encompass the practices that the banks follow in their parent country. This will greatly influence the corporate governance area in the Indian Banking Industry. It will also lead to increase in the standard of corporate governance practices that Indian banks follow consequently bringing the Indian Banking Corporate Governance scenario at par with international standards.

10.4: SCOPE FOR FURTHER RESEARCH.

The corporate governance process in the banks has been studied from the point of view of the banks only. It has not been possible for the researcher to study the actual effect that the corporate governance process has had on both the internal and external stakeholders. This area could provide scope for further research on this subject.

Also, Even though Cooperative Banks form a large chunk of the Indian Banking Industry, they do not trade in shares. Hence, they are not listed on any stock exchange. Even though most large cooperative banks follow corporate governance practices, they have been excluded from the scope of this research study. This component of the banking sector could also provide scope for further research.
There is not one single code that is applicable to the entire global banking industry. Another area of research could be the development of one uniform code of corporate governance for the entire global banking industry.

10.5: CONCLUSION

High ethical standards are necessary in banks and financial institutions to ensure their accountability to society. Consequently, only banks that follow sound and efficient governance practices will enjoy the confidence of the people. Banks play a vital role in the economy and the continued strength and stability of the banking system is a matter of general public interest and concern. In spite of this, the proper implementation of corporate governance practices in a large number of banks remains. Also, there are many gaps in the disclosures made in Indian organizations in comparison with the international standards. Indian standards fall short of international standards in many areas. Corporate Governance is indispensable or the continued existence of banks. Consequently, it becomes obligatory for the Banking sector to adhere to mandatory corporate governance practices since unsatisfactory governance practices can result into ineffective risk management and financial instability. Thus, the importance of corporate governance, especially in the banking sector, cannot be overlooked.