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Corporate Governance and Indian Banking Industry

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ABSTRACT

The present study aims at examining the governance practice prevailing in the prominent banks of the Indian Banking Industry within the Indian regulatory framework. The most accepted corporate mantra today is that better the C.G. practice of an organization, the better the shareholders and stakeholders value creation. The study aims at assessing the substance and quality of reporting of the corporate governance practice in the annual report. This paper is based on two renowned banks in the banking industry i.e. SBI & ICICI bank, the former being leading public sector bank and the latter being leading private sector bank. The study is based on clause 49 of the Listing Agreement as prescribed by the Securities and Exchange Board of India and Narayan Murthy's committee report on corporate governance

1. INTRODUCTION

Corporate governance has become the buzz word after the Cadbury committee submitted its report to the Govt in U.K. during 1990's. The term CG tells about the mechanism between the Top Management, Board of Directors and shareholders of company. This is the system which ensures the transparency, accountability and disclosure of information to all concerned. The idea behind corporate governance is simple – well run companies produce better results. Much of the emphasis has been placed on the best practice of managing formal external relationships, establishing transparency and emphasizing legal, timely and trustworthy information. Good CG ensures that mangers run the business in the long term interest of the shareholders & stakeholders. Research suggests that those companies which have better CG practices are more valued than others.

2. NEED FOR CG IN BANKING

Banks constitute the largest financial intermediaries around the globe and possess stupendous powers of leverage. But in India, scenario is different from the rest of corporate world in the sense that the authorities like RBI and the Govt play a direct role in bank governance through bank regulation and supervision. This ensures the systemic stability, financial stability and deposit insurance liability considerations.

Also good CG is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the banks to maintain a high level of business ethics and to optimize the value for all of its stakeholders. In Banks, Corporate governance is immensely needed in order to-

(i) To enhance shareholder value.
(ii) To protect the interest of shareholders and other stakeholders including customers, employees and society at large.
(iii) To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
(iv) To ensure accountability for performance and to achieve excellence at all levels.
(v) To provide corporate leadership of highest standard for others to emulate.

Thus CG of banks is an essential element of a country's governance architecture. It can have systemic financial stability implication and shape the pattern of credit distribution and overall supply of financial services. Hence the necessity and importance of enforcing effective corporate governance in the banking sector.

3 EMPIRICAL STUDY

The present study seeks to critically examine the prevailing corporate governance practice in the corporate sector in India within a regulatory framework. In order to assess the structure and processes for CG followed by the Indian Banks and their effectiveness in terms of substance and quality of reporting of governance practice in annual reports, we have conducted an empirical study on SBI and ICICI bank, the largest public sector and private sector bank respectively. The study has been made to evaluate the state of compliance of key governance parameters in SBI and ICICI bank in line with statutory and non- mandatory requirements stipulated by the revised clause 49 of listing agreement as also the provisions required by the companies Act, 1956.

This research work uses the case study approach to analyze the CG practices of the Indian banks. The banks studied in the research work are India's largest public sector and private sector banks, namely SBI and ICICI. Both the banks are the part of BSE Sensex and NSE Nifty. These banks have been selected on the ground that they are the largest banks in public and private sector and their share prices influence the movement of the Indian Stock Market. The period of study is financial year 2008- 2009. The reason being that the annual report for the year 2008- 2009 would give a glimpse of state of the latest CG practices and disclosure norms in the light of the latest SEBI clause 49 of the listing agreement as also the amended company law.

4. ANALYSIS

The analysis is made in two parts as given below:

i) Shareholding Pattern: A snapshot of the shareholding pattern of SBI and ICICI bank for the year 2008- 09 is shown in table1.

Table1

Shareholding pattern of SBI and ICICI bank for the year 2008 – 09

Categories	SBI	ICICI
Promoters	——	——
a) Indian (President of India)	59.41%	——
b)Foreign (Deutsche Bank Trust company Americas)	——	27.12 %
Non Resident (FIls/ OCBs/ NRIs)	12.33 %	36.64 %
Financials Institutions including Insurance Cos	10.90 %	16.14%
/ Banks		
Mutual Funds / Government Cos/ UTIs	5.36 %	6.35%
Domestic Cos / Pvt. Corporate Bodies/ Trusts	5.30 %	5.80 %
Individuals	6.70 %	7.95 %
Total	**100.00%**	**100.00%**

Observation from Table 1:

- It is evident from table1 that ownership of both the banks is widely distributed under public shareholding i.e. 59.41% by president of India in case of SBI and 27.12% by Deutsche Bank trust in case of ICICI Bank. While individuals are having only 6.70% and 7.95% in SBI and ICICI bank respectively.
- Shareholding held by financial institutions, mutual funds and domestic companies/ private corporate bodies/ trust in both the banks are more or less similar.

ii) Board of Directors/ Board Issues: We have examined various aspect of the board of directors viz., board structure, board strength and size, director attendance and a few others.

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iii. Board Structure, strength and size: The board structure, strength and size of SBI & ICICI have been shown in Table2.

Observation from Table 2: Both the banks have an optimum contribution of Executive Directors (ED's) and Non Executive Directors (NED's) / Independent Directors (IDs) on their boards during 2008 – 09. Thereby complying with the conditions of clause 49 of the listing agreement.

Table-2 Board structure, strength and size

Categories	SBI	ICICI
1. Total No. of Directors	13	16
a) No. of Executive Directors (ED)	4	5
(i) Promoters/ whole time Directors	3	5
(II) Others	1	-
b) No. of Non Executive Directors (NED)	9	11
(i) Promoters	-	-
(II) Independent Directors (IDs)	-	-
(iii) Nominees by central govt / RBI	6	-
(iv) Others	3	-
2. Total Number and percentage of		
(i) Executive Director (EDs)	4 (30.8%)	5(31.2%)
(ii) Non- Executive Directors	9(69.2%)	11(68.8%)
(iii) Independent Directors	-	-

Table - 3
Directors Attendance in Board Meeting

Categories	SBI	ICICI
0	-	-
1	1	2
2	3	2
3	2	1
4	-	1
5	1	1
6	2	1
7	1	4
8	-	5
9	5	N.A.
Last Annual General Meeting Attendance	Not given	12

With regard to the Director's Attendance in last AGM, ICICI has 75% directors attendance.

Observation from Table 3: ICICI Board met eight times during 2008-09. Out of 16 directors, nine directors (including the chairman) attended at least 7 meetings, recording more than 50% attendance in the total board meetings. This can be considered as a reasonable good attendance indicating a high level of accountability of the board members towards their stakeholders.

SBI boards met nine times during 2008- 2009. Out of 13 directors, eight directors (including the chairman) were present in at least 6 meetings recording more than 60% attendance in the total board meetings. This is a reasonably good attendance reflecting the board's high level of accountability towards their stakeholders.

Observation from Table 4:

- SBI and ICICI both have complied with the conditions of clause 49 of the listing agreement as mentioned in table 4.
- Both the banks have published audit committee report in their report on corporate governance.

Table4: Status of Audit committee in banks in 2008-2009

S.N.	Particulars	SBI	ICICI
1	Transparency in composition of Audit Committee	Committee consists of seven directors (including two whole time directors, two official directors (nominee by RBI and GOI) and three non official, non executive directors, chairman being independent.	Committee comprises three independent directors having chairman as independent director.
2	Compliance of minimum requirement of the number of independent directors in committee	All members are independent directors, as required by clause 49 of the listing agreement.	All members are independent directors, as required by clause 49 of the listing agreement.
3	Compliance of minimum requirement of the number of meetings and committees.	Nine meetings were held,One member attended all nine meetings One member attended eight meetings One member attended seven meetings One member attended six meetings One member attended three meetings One member attended two meetings One member attended one meetings All members reported having adequate literacy expertise in finance and accounting.	Six meetings were held during the year. One member (c) attended all six meetings whereas other two members attended five meetings.
4	Information about literacy and finance expertise of the committee members.	Internal auditors statutory auditors and other invitees participated in the meetings.	All members reported having adequate literacy expertise in finance and accounting.
5	Information about participation of head of finance statutory auditors chief internal auditors and other invitees in meeting.	Audit committee charter disclosed in corporate governance report.	Internal auditors statutory auditors and other invitees participated in the meetings.
6	Disclosure of audit committee charter and terms of reference.	Published in corporate governance report.	Audit committee charter disclosed in corporate governance report.
7	Publishing audit committee report.		Published in corporate governance report.

Table - 5: Status of shareholders Grievance Committee in 2008-2009.

S.N.	Particulars	SBI	ICICI
1	Transparency in composition of the Committee	The Committee consists of five members and is chaired by a non executive director	The Committee consists of four members and the chairman is an independent director.
2	Information about nature of compliant and queries received and disposed.	Out of 309, no complaint was reported as pending.	The committee received 955 shareholders' complaints and no complaint was reported as pending.
3	Information about number committee meetings.	Four meetings were held. Two members attended all the four meetings.One member attended two meetings.	Five meetings were held during the year.One member attended all the five meetings whereas other three members attended four meetings.
4	Information about investor/shareholder survey conducted.	No survey conducted.	No survey was conducted.
5	Publishing of Committee report.	Published in corporate governance report.	Published in corporate governance report.

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Table - 6 :Status of Remunerations committee

S.N.	Particulars	SBI	ICICI
1.	Transparency in formation of the Committee	The Committee consists of four NED's/ Independent directors.	The Committee consists of five independent directors.
2.	Information about number committee meetings	Not disclosed	Four meetings were held.
3.	Compliance of minimum requirement of the number of NED's in the committee.	Committee consists of all NEDs/ IDs, complying with minimum requirement of clause 49 listing agreement.	Committee consists of all independent directors, complying with minimum requirement of clause 49 of listing agreement.
4.	Compliance of the provision of the independent director as chairman of the committee.	Chairman of the committee is an independent director.	Chairman of the committee is an independent director.
5.	Information about participation of all members in the committee meetings.	Not disclosed	Two members including chairman attended all four meetings while other three members attended three meetings each.
6.	Publishing of committee report.	Published in corporate governance report.	Published in corporate governance report.

Observation of Table 6: Forming of remuneration committee in a listed company is a non mandatory requirement of the clause 49 of the listing agreement. Despite that both the banks has setup their remuneration committee following the conditions of clause 49 of the listing agreement mentioned in items 1 and 3 in table 6.

- Both the banks have disclosed the status of the chairman as independent director which is the main requirement of clause 49.

- ICICI Bank has disclosed the information about the number of meetings held and participation of its member in the meeting. On the contrary, SBI has not disclosed the either information.

5. EVALUATION OF GOVERNANCE PRACTICE

After analyzing the governance structure, process and disclosure made on corporate governance, the question that comes to mind is what is the standard and quality of governance that has been achieved by SBI and ICICI bank.

Considering the fact that there have been certain genuine difficulties because of non- availability of inside information, and no scope for discussion with key officials of the banks, their auditors, directors and major shareholders etc, as an alternative, we have developed our own model as a 'working method'. The method applied here for evaluation of the standard and quality of corporate governance practiced in SBI and ICICI has considered all the relevant conditions and corporate governance stipulated by the clause 49 of the listing agreement, provision of the companies Act, 1956 and Narayan Murthy's committee on corporate governance. In order to association how far these banks are compliant of governance standard, an optional value system has been applied to all these conditions according to their importance. After determining the total score based on these parameters (i.e. based on the total numbers of yes's/ No's), Banks have been evaluated on a five- point scale. The result of which is presented in Table-8.

Table 8:
Grading on five point scale

Score Range	Rank
86- 100	Excellent
71- 85	Very Good
56- 70	Good
41 – 55	Average
Below 41	Poor

6. RESULTS

An evaluation of the results reveals that SBI and ICICI have shown 'Very Good' performance with score of 75.75% and 80.30% respectively.

From the above micro analysis and study of the annual report of SBI and ICICI bank for the year 2008- 09, it appears that there is still scope for improvement in the level of corporate Development, Corporate Social Responsibility and industrial Relations.

Both the banks have indicated the various steps taken by them in the above mentioned areas. Also , in case of additional committees, ICICI seems to be more accountable towards its stakeholders as compared to SBI.

7. CONCLUSION

In spite of some limitations of study viz. dependence on the secondary sources of information etc., the study however helps us to pinpoint the effectiveness of CG practices. In SBI and ICICI Bank it is important to note that some of the areas where SBI needs more to improve its CG practices as compared to ICICI bank is in fact common to most of the public sector banks in India. Given that SBI and ICICI banks being the largest public sector and private sector bank respectively, their practices attract a lot of attention.

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