CORPORATE GOVERNANCE IN BANKS

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ABSTRACT

In an era of fierce competition, globalization and world power, business enterprises need to focus on new practices that will help promote integrity and true ownership. The main concern of corporate governance is to ensure that corporate executives and managers act in the best interests of the company and shareholders, and managers have a responsibility to investors for the use of assets. The concept of business governance can be compared to good practices based on ISO standards. It also includes non-executive directors on the board of directors and allows members to be more active and proactive in their work. All business information should be available to them and controls should be clear to ensure that information is accurate, timely and efficient. Globalization and liberalization have brought the Indian economy to the world. This is not only necessary to create a practical and effective business management but should also be based on international standards. The principles of corporate governance are based on the ethics of transparency, fairness and accountability.

Key Words: Governance, Accountability, Technology, Changing, Banking. System,

INTRODUCTION

The Indian banking sector is nearly 200 years old and has undergone many changes since independence. However, liberalization, privatization, globalization and information technology are now changing the Indian financial market. However, the reform in the Indian banking system has led them to more freedom and free trade. Now banks, especially public companies, have felt the real challenge. Interest rate cuts, low profits and players catering more to low-income consumers have added to the concerns of the company. After all, consumers are at the center and all company products are customized according to their preferences and interests. The sudden change in the banking environment has eliminated all the comfort of banks and many banks have had a hard time coping with the change..

Need for Corporate Governance in Banks

Since banks are the major players in the Indian economy, it is important to focus on the governance of the banking sector. The Reserve Bank of India is responsible for regulating the banking sector as a regulator. The governance of the banks is the main part of their influence. Given the importance of public ownership in the Indian banking

system, participation in the banking sector will also set the standard of corporate governance in the private sector. Oversight of the governance of the banking sector is particularly important to reduce the financial costs that may arise from the recovery of public savings banks. Financial markets are not necessarily perfect markets. Some are, of course, but some banks are usually state-owned under commercial law or are operated as cooperatives, just like your bank. The banking sector is unique in that the interests of other stakeholders are seen as more important to the banking sector than to non-banking institutions and organizations than to money. For traditional manufacturing companies, the issue is maximizing management and shareholder value. In the case of the banking sector, depositors are more exposed to risk and more sensitive to exposure than productive customers. In addition, due to the importance of financial stability and the increasing public interest, government involvement in banks has also increased. Since regulation of the economy is not sufficient to ensure proper management of banks, the government has reasons to control and regulate the nature of bank activities, financial structure, equity model, resource model, resource ratio, etc.

Reasons for high degree of oversight

There are three reasons for degree of government oversight in this sector.

- Firstly, it is believed that the depositors, particularly retail depositors, can not effectively protect themselves as they do not have adequate information, nor are they in a position to coordinate with each other.
- Secondly, bank assets are unusually opaque, and lack transparency as well as liquidity. This condition arises due to the fact that most bank loans, unlike other products and services, are usually customised and privately negotiated.

Thirdly, it is believed that that there could be a contagion effect resulting from the instability of one bank, which would affect a class of banks or even the entire financial system and the economy. As one bank becomes unstable, there may be a heightened perception of risk among depositors for the entire class of such banks, resulting in a run on the deposits and putting the entire financial system in jeopardy

Genesis of corporate governance

It would certainly not be out of place to describe how economic management and problems related to economic management have come to the forefront around the world in the past. The seeds of modern management were sown in the Watergate scandal in the United States. Subsequent investigations by US regulators and law enforcement agencies revealed a lack of control that led to political crimes and bribery of government officials by many large companies. While these developments in the US sparked controversy in the UK, much of the criticism and conflict in the country in the 1980s and early 1990s came from business owners and buildings because of concerns about the banks' resources. Many British companies experienced profitable growth in the 1980s, but ended the decade in ruins. More importantly, the main reason for the failure of such high-tech companies is poor business management. Major changes in standards. In May 1991, the London Stock Exchange established a task force under the chairmanship of Sir Arian Cadbury to help improve corporate governance and auditing of financial and financial reporting by defining the roles of each body. The committee investigated the board's responsibilities to members and society. In December 1992, it presented its "Code of Best Practice" report, which outlined the governance methods

that should be used to maintain the balance of power and appropriate responsibilities of the board. As a corporate governance report, it is intended to be a summary of its recommendations, which are probably important guidelines regarding the board, advertising and management, etc. To manage the proper and efficient management of the company and to provide oversight to management. The company's leaders need to have clear information and a division of responsibilities to ensure that there is a balance of power and authority so that no one person has the authority to make decisions. The board should develop a list of specific issues that it will consider to ensure that the management and governance of the company remain firmly in its hands. There should also be an approval process so that directors can do their jobs and receive independent work instructions. Corporate governance issues are being studied and addressed in depth by the Confederation of Indian Industry (CII), the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and the Securities and Exchange Board of India (SEBI). These studies support Cadbury's report focusing on the important role of the board and the need to adhere to best practices. Cooperative banks as a legal entity have certain characteristics. Paradoxical as it may sound, the evolution of cooperative in India from a business enterprise to a human organization along with its management process has hindered the development of professionalism in cooperation and has turned out to be a neglected area in the evolution of cooperation.

Essential governance principles

The Basel Committee has issued several papers on specific topics. These include "Frame work for internal control systems in banking organizations" (September-98) "Enhancing bank Transparency" and Principles for the management of credit risk (July-99).The following practices to avoid governance problems.

1. The Company should lay solid foundations for management and oversight: recognize and publish the respective roles and responsibilities of board and management.
2. Structure the board to add value: have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
3. Actively promote ethical and responsible decision making.
4. Safeguard integrity and financial reporting: have a structure to independently verify and safeguard the integrity of the company's financial reporting.
5. Make timely and balanced disclosure of all material matters concerning the company.
6. Respect the rights of the shareholders and facilitate the effective exercise of those rights.
7. Recognize and manage risk through system of risk oversight and management and internal control.
8. Fairly review and Encourage enhanced performance.
9. Remunerate fairly and responsibly and its relationship to corporate and individual performance is defined.
10. Recognize the legitimate interests of stakeholders.
11. Corporate governance rating be made mandatory for listed companies.
12. Ensure that the board members are well qualified and not subject to pressure.
13. Ethical Approach: A clearly ethical basis to the business.
14. Conducting corporate governance in a transparent manner.

Measures taken by banks towards implementation of best practices

The Reserve Bank of India has integrated sound prudential policies in terms of income recognition, asset allocation and capital adequacy. In order to follow

international best practices, banks were given a grace period of 90 days for allocation of non-performing assets from March 31, 2004. Also, the rules for provision of doubtful items were gradually tightened. From 2005 onwards, banks had to stop the cost of capital for the risk of doing business in their capital markets, which had previously been a barrier to many business risks, with the government. The capital adequacy ratios of banks are well above the 9% benchmark and with the implementation of the new Basel 2 standards, they are also expected to meet the CRAR standards. In fact, as of March 31, 2004, the CRAR of all banking institutions was almost 13%. aggregate of income and bad credit deposits. Both are important for proper supervision of the board of directors and senior management, which is used under strict conditions by the Indian banking system and monitored by the Reserve Bank of India. These steps enable banks to understand, measure and predict the impact of interest rate risk and income risk, which are increasingly important in an environment of liberalisation.

Measures taken by regulator towards corporate governance:

The Reserve Bank of India has introduced a number of measures to strengthen corporate governance in the Indian banking system. These can be divided into the following three categories: a) Transparency b) External monitoring c) Timely correction Transparency and disclosure of standards are also important components of good governance. Transparency and accounting standards in India have evolved to match international best practices. However, there are many differences between Indian reporting and international standards, especially in terms of risk management and downside risk, risk assessment, performance measurement, capital structure, etc. The base needs to be broadened for improvement. The Reserve Bank of India also provides a "peer group comparison" database of significant benchmarks for performance and governance. part. Compared to the capital adequacy-based guideline generally adopted by many countries, the Reserve Bank has set two additional guidelines based on India's case, namely non-performing assets (NPA) and return on assets (ROA). which are indicators of quality and adequate capital. These factors will lead regulators to intervene in many necessary measures to prevent further damage to the health of banks that are shown to be weak.

Conclusion

As competitiveness increases and financial markets deepen in the coming years, the Indian financial system will not only grow but also become more complex. The policy environment will support health and growth by focusing on increasing operational flexibility and strengthening prudential supervision. But the real success of our financial reforms will depend on the performance of banks. Under open trade and compliance with WTO rules, Indian companies can survive and thrive in the ever-increasing global competition only through transparency. Excellence in customer satisfaction, returns, products and services, rewards to sponsors and responsibility to society cannot be achieved without good business management. With good corporate governance, sound business policies, internal controls, better risk management, focus on emerging markets such as microfinance, better customer loyalty, efficiency and regulatory requirements, -Operating banks will win. We can solve these problems and turn them into time.

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