Corporate Governance in Banking Sector

1228. SHRI PARBATBHAI SAVABHAI PATEL:
SHRI JASWANT SINGH BHABHOR:
SHRI NARANBHAI KACHHADIYA:

Will the Minister of Finance be pleased to state:

(a) whether the Government has taken note of the alleged new cases with respect to the violation of corporate governance norms in the banking sector and if so, the details thereof; and

(b) the measures taken/proposed to be taken by the Government to strengthen the corporate governance norms and to improve transparency in the banking sector?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a): The Reserve Bank of India (RBI) has informed that corporate governance, risk management, compliance and internal audit functions in the banks are part of the scope of periodic supervisory assessment of banks by RBI and, based on the risk-based supervisory assessments, observations on the identified gaps in these areas requiring attention of the banks and their mitigation are flagged to the banks concerned and monitored by RBI as part of further improvements on a continuous basis. In addition, the Ministry of Corporate Affairs has informed that an inspection under section 206(5) of the Companies Act was ordered against Yes Bank Limited on the basis of a complaint received in July 2020.

(b): RBI has apprised that in addition to flagging identified gaps in corporate governance to the banks concerned and monitoring of the same by RBI for improvements, improvements in governance are effected through an ongoing process and evolve through periodic supervisory assessment, aligning the current regulatory framework, including regulations, advisories and guidance, with global best practices while being mindful of the context of domestic financial system. In this connection, RBI has apprised that it has taken the
following steps to strengthen corporate governance norms and to improve transparency in the banking sector:

(i) In June 2020, RBI has released a discussion paper on “Governance in Commercial Banks in India” with the objective of improving governance standards in and empowering the Boards of commercial banks.

(ii) Guidelines applicable to directors of public sector banks (PSBs) nominated under different statutes and those elected have been aligned with the recommendations of Banks Board Bureau (BBB) on the constitution of the Nomination and Remuneration Committee, and revised guidelines on ‘fit and proper’ criteria for shareholder directors in the PSBs have been issued.

(iii) In alignment with the principles of the Financial Stability Board (an international standard-setting body for promoting financial stability) for sound compensation practices, RBI has issued revised compensation guidelines for whole-time directors, chief executive officers (CEOs), material risk-takers and control function staff of all private sector banks.

(iv) As part of further strengthening of the compliance culture in the banks, detailed guidelines towards independence and enhancement of status of compliance, including appointment of Chief Compliance Officer in banks, have been issued.

(v) Instructions relating to the process of appointment of Managing Director (MD) and CEO or CEO or part-time Chairperson in private sector banks and foreign banks have been revised to enhance disclosure and improve transparency, bring in more clarity in information, align with the provisions of the Companies Act, 2013, help recognise actual or potential or perceived conflicts of interest, bring uniformity in the format for directors across all banks, and enhance the rigour of due diligence undertaken before appointment of directors including whole-time directors.

In addition, Government has instituted a number of governance reforms to strengthen corporate governance norms in PSBs, and to improve transparency including, inter alia, the following:

1. Since 2015, appointments of the chairpersons, chief executives and other whole-time directors of PSB are being made at arm’s length through a professional Banks Board Bureau. The Board has ensured transparency in the selection process by declaring selection results on the same day as the interaction/interview with the candidates, strengthening the independence of the selection process

2. The position of the Chairman and Managing Director has been bifurcated since 2015 into those of a non-Executive Chairman and a Managing Director and Chief
Executive Officer in nationalised banks, strengthening independent Board functioning.

3. Ensuring effective use of non-official directors, by giving them mandate to play role akin to independent directors, and institutionalising their peer evaluation and training.

4. Appraisal of top bank executives has been entrusted to a Board committee.

5. Boards have been empowered to recruit the bank’s Chief Risk Officer from the market, at market-linked compensation, to attract the best talent for managing risk.

6. The Risk Management Committee of the Board has been empowered to set and review the Risk Appetite Framework and to fix accountability for its observance.