International Journal of Management and Commerce
www.managementjournal.in
Online ISSN: 2664-6854
Received: 10-07-2026, Accepted: 10-08-2026, Published: 25-08-2026
Volume 8, Issue 3, 2026, Page No. 55-57

Need to strengthen corporate governance in Indian banking sector

Dr. Saroj Kumar
Department of Commerce and Business Administration, Lalit Narayan Mithila University, Darbhanga, Bihar, India

Abstract
The implementation of corporate governance norms in Indian banks has been phenomenal after the bank reforms were put in place. With the initial framework of the Ganguly committee, there has been a consistent focus on 'fit and proper' standards. The PSBs have even begun to rate their corporate governance standards from rating agencies. Banks have been working on the sustainability of corporate governance standards and have begun to realize the importance of corporate social responsibility which is an integral part of it. The multiplicity of regulators, issues in the appointment of rightly qualified Board members and conflict of interest between long term and short-term objectives always pose bigger challenges. Corporate Governance is a mission intended to create strong fundamentals for the banks. With changing dimensions of corporate governance practices banks need to transform into much more dynamic and forceful entities setting a broad vision for the future. It will be more significant in the wake of the recent global financial turmoil which had taken a heavy toll of several financial conglomerates.

Keywords: Code of conduct, corporate governance, ethical behaviour, Indian banking sector, prompt corrective action

Introduction
Banks are the backbone of an economy and play a crucial role in the distribution of capital. Hence, the proper governance of banks is essential for economic growth and development of the nation as a whole. According to Cadbury Committee report, corporate governance means the system by which companies are directed and controlled. 'Corporate Governance' in the context of banking denotes, managing the affairs of a banking company by adopting the global best practices so as to protect the interests of all stake holders such as depositors, other customers, investors, employees, regulatory authorities and society at large. Therefore, the gamut of corporate governance involves several governance aspects namely regulatory, market, stake holder and internal governance aspects. For a balanced performance of an economy the country's economic and financial systems have to be stable. If any of these factors is found wanting there could be destabilization of the economy.

Banks are which are highly regulated in India form the backbone of the economy. Any failure of the governance factors will have its chain reaction on other sectors of the economy as banking industry is linked to nearly 80 Industries. Therefore, banks must follow and act in many ways so as to inspire confidence among all its stake holders. Hence good governance practices are a pre-requisite for a robust banking system in the interest of all. Poor governance in the banking system can lead to bank failures and consequently erode the confidence of depositors and other customers leading to run on banks and will have significant national and international negative fallouts.

Beneficial Role of Corporate Governance: Banking Perspective
Why corporate governance is important for banking institutions?

The reasons are as follows:
- Financial institutions play a pivotal role in an economy. Any mishap therein will be detrimental to the economy and to get back to normalcy, it would take a long time which may impede growth plans.
- Financial institutions, especially banks are highly leveraged, and this make them vulnerable to any adverse developments in the economy. Therefore, in order to ensure economic stability, governance of these institutions is a must.
- Among financial institutions, banks are highly trusted organizations that deal with funds of the public at large. Anything amiss in its functions will result in loss of trust, leading eventually to the collapse of such institutions and also will have its contagion effect on the economy. Therefore, good corporate governance is essential for building of trust among all stake holders in these institutions.
- Banks act as agents for transmission of monetary policies to the public. They also play a vital role in payment and settlement system in an economy. Any weaknesses arising out of poor or inadequate monitoring can be set right with robust internal controls which is an essential part of governance.

Therefore, corporate governance plays a beneficial role in an economy.

Evolution of Corporate Governance in Indian Banking
Though banks in India were highly regulated by RBI, guidelines for corporate governance were very limited before the reforms took place in the banking sector in India. Dominance of Public sector banks with a few private sector banks along with cooperative sector banks formed the space of banking in India previously. However, the economic reforms of 1991-92 and subsequent banking reforms changed the scenario, a greater number of private banks and foreign banks entered the Indian banking scenario and began to function in a competitive manner with public sector banks and old generation private sector banks in India. Banks were given more freedom in their functions as well as autonomy. Over a period, the shareholding of Government of India also came down in public sector

banks, giving way to public shareholding. This has compelled banks to improve their governance standards.

International developments in corporate governance also contributed its share in the development of the same in India during late 1990s and early 2000. Guidelines of the Basel Committee, the Organization for Economic Cooperation and Development (OECD) principles on corporate governance, developments in US during this period etc. had its impact on corporate governance aspects of banks in India. The Southeast Asian crisis of 1997 also made its impact about the need for proper corporate governance aspects of banks.

The seeds of corporate governance for banks in India began with the announcement of by Dr. Bimal Jalan, the then RBI Governor who in 2001 constituted an advisory group under Dr. R.H. Patil. This group looked into the state of corporate governance prevailing in banks made a set of recommendations regarding governance standards in Indian banks in line with international best practices. Subsequently, a group under Dr. A.S. Ganguly was appointed, to study the role of Board of Directors of banks and suggest ways to strengthen the same. This report was shared with all banks and submitted to Central Government also for its consideration in mid-2002. Along with these another study group headed by Mr. M.S. Verma (former Chairman of SBI) was set up to make recommendations on Banking Supervision. This study group submitted its recommendations in early 2003. The Reserve Bank then took measures to strengthen the corporate governance in the Indian banking sector and try to bring it at par with international standards. On 21 August 2002, the then Department of Company Affairs instituted a committee to look into various corporate governance issues in the country.

The economic reforms and banking reforms brought in several changes in banking environment in India including corporate governance. Increased entry of private and foreign banks, enhanced level of competition between various banks, conferring greater independence to Public Sector bank boards, granting more functional autonomy, appointment of independent directors on boards etc. called for a more enhanced level of corporate governance in banks in India. Though banks are highly regulated, the primary responsibility to develop governance practices rests on themselves. The Banking scams that took place in 1990s pointed to the gaps in disclosure and governance aspects of banks. All these developments resulted in bringing in a need for adoption and enforcement of best corporate governance standards among banks in India.

The April 2001 regulatory compulsion of SEBI on companies including banking companies in India, to follow strict corporate governance practices and disclosures under Clause 49 of the Listing Agreement ushered in a milestone in corporate governance among banks in India. However, in spite of various initiatives taken to entrench best corporate governance practices among banks, certain impediments such as vast powers enjoyed by Government in appointment of members of board of banks, directive powers of RBI, disclosure practices etc. still exist.

Effect of lack of Corporate Governance

There are glaring national and international examples of involving banks that showed what an ineffective corporate governance can do to financial institutions and national economies. Enron crisis in early 2000, sub- prime crisis leading to collapse of Lehman Brothers and near collapse of the global financial system in 2008, the recent LIBOR crisis involving several leading American and European banks are all some of the international examples. Harshad Mehta Scam in 1992, Ketan Parekh scandal in 1997, Software giant Satyam Computer's crisis, folding up of Global Trust Bank (which later merged with a PSU Bank) etc. are some of the national examples in this regard. Even the latest Nirav Modi's case, points to the failure of governance aspects on the port of the concerned bank. The Punjab Maharashtra Co-operative Bank crisis which has erupted on September 23, 2019, also reveals the lack of proper corporate governance practices including failure of oversight functions leading to erosion of public confidence In banking institutions.

Good Corporate Governance standards include the following:

1. Establishing code of conduct and ethical behaviour right from the Board of Directors level to all other employees including accountability aspects thereof.
2. Constant review of role, responsibilities as well as accountability aspects of the Board of Directors.
3. Evaluating the effectiveness managing the operations of the bank by senior management.
4. Supervising strategic management and oversee risk management by establishing appropriate procedures for managing risks.

The Basel Committee in 1999, had pronounced some important oversight aspects within the organizational structure to maintain proper checks and balances. They are "(1) oversight by the board of directors or supervisory board; (ii) oversight by individuals not involved in the day-to-day running of the various business areas; (iii) direct line supervision of different business areas; (iv) Independent risk management and audit functions". Additionally, there was an emphasis on key personnel being 'fit and proper' for their roles. These recommendations convey an undercurrent of governance standards in banks.

Regulatory Bodies involved in Corporate Governance of Banks

Among the financial regulators, RBI and SEBI play complementary roles in corporate governance of banks in India. Prudential norms and associated principles of Basel norms, form the basis of corporate governance in banks. Within RBI, the Board of Financial Supervision is concerned with corporate governance functions which has supervisory oversight of Department of Banking Supervision and Department of Non-banking Supervision and Financial Institutions Division. On the other hand, SEBI which regulates securities markets, oversees the mandatory compliance of corporate governance norms in listed banks.

Qualitative Standards in Corporate Governance of Banks

Qualitative standards of corporate governance of a bank is reflected, in the following areas of working of a bank:

- Standard of Ethics in the organization;
- Standards of internal control;
- Role of Board of Directors;
- Disclosure standards;
- Accounting system;
- Risk management systems.

Governance and day to day management

It is the basic responsibility of operating management consisting of CEO, top management functionaries and line managers. It is the responsibility of operating management to ensure day to day management functions are carried out within the governing standards and plug loopholes by constant review.

Benchmarks for evaluating Corporate Governance Standards

The benchmarks for evaluation of corporate governance standards of a banking company include the following model codes for best practices, role of the board of directors and various committees, recommended disclosure requirements, level of transparency, reporting system to various levels including to the board of directors, policies framed by the board, monitoring performances at periodical intervals.

Summing-up

Due to economic liberalization, banking reforms as well as introduction of prudential regulations in 1990s, the emphasis of regulator shifted from control to governance. Banks were given more freedom as well as autonomy in their functional areas. This called for greater governance standards from the Board of Directors of banks. Keeping in mind the changed scenario several guidelines were issued by RBI to strengthen corporate governance in banks. These guidelines were in line with Basel Committee recommendations such as Role of the Board of Directors, fit and proper criteria of Board members, separation of the post of Chairman and Managing Director, remuneration aspects, role of independent directors, ownership and extent of shareholding in private sector banks and governance thereof. Further recently, guidelines on Non-Operative Financial Holding Companies, Fit and proper status of groups, Prompt Corrective Action etc. were also issued to strengthen Corporate governance of banks in India.

References

1. Banerjee A M, Chandrasekaran. Renewing Governance: Issues and Options. Tata McGraw Hill, 1996.
2. Deb, R. Corporate Governance Practices in Indian Banks. Journal of Business Management and Social Sciences Research,2013:2(5):36–50.
3. Gopalsamy N. Corporate Governance: The New Paradigm. Wheeler Publishing, 1998.
4. Joshi, Vasudha. Corporate Governance: The Indian Scenario. Foundation Books, 2004.
5. Reddy Y R K, Yerram, Raju. Corporate Governance in Banking and Finance. Tata McGraw Hill, 2000.
6. Sharma Munish, Singh, Raj Kumar. Corporate Governance Practices in Indian Banking Sector: A Study of Public and Private Sector Banks. International Journal of Research and Analytical Review,2022:9(2):414–427.
7. www.bis.org
8. www.financialexpress.com
9. www.iibf.org.in
10. www.rbi.org.in
11. www.worldbank.org