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Practices of corporate governance in Indusind Bank

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ABSTRACT

Corporate governance is the set of guidelines for the internal control and to measure the performance of a corporation which is registered with a stock exchange. It involves balancing or protecting the interest of shareholders, customers, investors, suppliers, social community and government. Good corporate governance leads a corporation to grow, profitability, integrity and reliability. Banks need to follow the corporate governance practices due to the special function and they deal with the public money directly. A sound corporate governance guides on the structure and role of board of directors, internal as well external audit and risk management.

The practices of "corporate governance" in "Indusind Bank" are observed and analyzed. Five years of annual reports from 2011-12 to 2015-16 are analyzed with respect to five parameters of "corporate governance" i.e. 'Composition of Board', 'Meeting of Board', 'Composition of Audit Committee', 'Meeting of Audit Committee' and 'Report on Corporate Governance'. Annual reports of bank are used for examining the "corporate governance" practices adopted by the bank as per clause 49 of the listing agreement. The study concludes that overall "corporate governance" practices of "Indusind Bank" is good. The performance of bank is increasing year on year from 2011-12 which is a sign of good governance.

Keywords: "corporate governance, listing agreement, composition of board, Indusind Bank, clause 49, Audit Committee."

Introduction

The latest phenomenon of financial uncertainty has underlined the potential infirmity of financial structures and the effect that financial uncertainty can have on the broad economy. After recognizing the same, more consciousness has to be given for understanding the main causes and consequences of financial calamity and to develop the policy and process structure for stimulating the full-fledged and well planned financial systems. A main part of that work associates to "corporate governance" arrangements. "Corporate governance" has attracted considerable attention over the past decades. The rapid development of "corporate governance" and its structures reflect its importance to business entities and communities. Governments must consider it's important in assuring accountability and improving performance. "Corporate governance" brought in lime light through series of corporate failures like such as Enron and World Corn. These companies collapsed because of non-adherence of "corporate governance" and unethical practices they indulged in. Satyam scandal in India is also the case of non-adherence of "corporate governance".

There is no deviation for financial companies and institutions; more transparency is required in functioning of such companied & financial institutions because there are several scams via these Institutions. As competency has increased in domestic banking market, banks are not looking the "corporate governance" simply as a code of conduct for doing the business but want to utilize it as a tool for lowering the risk and to enhance the value of shareholders. Powerful "corporate governance" is very important and critical for function the banking system in proper way and also for the entire economy. Banks play a very important and crucial part in the economic system to intermediate the money from public and depositors to the other functions and affairs which support the business and enterprise and help to drive the economy. Safety and soundness are two keys of banks which ensure the financial stability, and the methodology in which banks behave and do their business therefore it is prominent to the economy. Weak governance in banking system and in financial system can lead the problems across the banking sector and for entire economy as well.

"Corporate governance" policies recommended by Reserve Bank of India and Basel Committee require for maintaining a well-balanced and efficient board which is required for effective strategy execution and efficient strategy implementation. This study is about the "Indusind Bank" to find out that how the bank adopted "corporate governance" principles and what is its effect on performances.

Literature Review

A large no. of researches has conducted on the practices of corporate governance in banking sector by the researchers, academicians and experts. During the research, a no. of journals, magazines and relevant websites studied which gave an idea about the corporate governance followed by the banks. It helps to provide a path for research. Short descriptions of literature studied are as below-

Chokshi (2015) conducted a study on "corporate governance in banking sector - indicating Transparency and Translucency" which was based on overall banking sector. It was observed from the study that the "corporate governance" practices in the banking and financial sector are vital and important. Swarup (2011) conducted a study on "corporate governance" in the Banking

Sector" and analyzed that "corporate governance" is backbone of transparent relationships among an institution's management, its board, shareholders and other stakeholders. Due to special nature of the activities carried on by the banks, they face a lot of problems as far as the area of "corporate governance" is concerned. Jakob and Razvan (2015) surveyed on corporate governance of banks. They focused on three characteristics (i) regulation (ii) the capital structure of banks and (iii) the complexity and opacity of their business and structure. The tools used in the study were: 1) the size and composition of the board 2) concentrated ownership 3) management compensation schemes 4) the market for corporate control. Vijaylakshmi (2013) had done a case study of Andhra Bank on "Corporate Governance Practices in Banking Sector". The study analyzed the corporate governance practices of Andhra Bank using content analysis. The annual reports were analyzed from 2004-05 to 2011-12 with respect to board composition and various mandatory and non-mandatory committees. Rayudu, Venu and Vijay (2015) conducted a research on Corporate Governance in Indian Banks (with reference to Bank of Baroda and HDFC Bank Limited). They analyzed that corporate governance is the set of processes, customs, policies and laws. It affects the way a corporation (or company) is directed, administered or controlled.

Dharmwani (2015) analyzed the "Role of Corporate Governance in Indian Banking Sector". The research revealed that Corporate Governance philosophy of banks has to be based on pursuit of sound business ethics and strong professionalism. It should align the interests of all stakeholders and the society. Srinivasa (2013) had done a case study on State Bank of India as "Corporate Governance in Banking Sector: A Case study of State Bank of India". The study found that State Bank of India implemented all the provisions of corporate governance according to the RBI/Government's directions. It was found that State Bank of India performed well in every aspect in terms of profits, assets, deposits, branches, employees and services to customers. Kaushik and Kamboj (2011) carried out a research on role of Reserve Bank of India as "Gatekeeper of Corporate Governance- Reserve Bank of India" and analyze that the Reserve Bank of India through its policies has insulated the Indian economy from the effects of one of the worst global crisis following the fall of Lehman Brothers in October 2008. Arun and Turner (2004) had done an intensive study regarding "Corporate Governance of Banks in Developing Economies" They observed that corporate governance of banking institutions in developing economies is an important issue. Based on the corporate governance policies of banks, they suggested that banking reforms can only be fully implemented once a prudential regulatory system is in place. Panchasara (2012) conducted a research on "An empirical study on Corporate Governance in Indian Banking Sector". This research found that a number of Indian banks listed in Bankex have chosen to disclose information regarding various issues of corporate governance to increase the confidence of various constitutes of business as well as society.

Objectives:

1. To analyze whether "corporate governance" policies plays key role in profit earnings of the banks.
2. To analyze the extent to which bank has adopted the "corporate governance" policies.

Methodology

The topic "Analysis of "corporate governance" practices has been selected to study the adherences of "corporate governance" policies by the "Indusind Bank". It was also done to judge how "corporate governance" helps bank to mitigate various risk factors when most of the banks have huge burden of bad loans. It also analyzes that how "corporate governance" helps bank to reach operational efficiency. Only secondary data was reviewed for the research. Annual reports of banks from 2004-05 to 2015-16 and journals were examined for the analysis. Besides the data related to Clause 49 ("corporate governance") of listing agreement has taken from SEBI guidelines. Weights have assigned to all five parameters between 1-4, (1 is lowest and 4 is highest) and compared with the income and profit ratios.

Data Analyses and Results

Clause 49- "corporate governance" as per SEBI reports basically focus on transparent management and control systems. Clause 49 identifies various committees. Five years of annual reports from 2011-12 to 2015-16 are analyzed with respect to five parameters of "corporate governance" i.e. 'Composition of Board', 'Meeting of Board', 'Composition of Audit Committee', 'Meeting of Audit Committee' and 'Report on Corporate'.

A) **Composition of Board:**

I. At least fifty percent of the Board of directors should be non-executive directors.

II. At least one woman director**.**

In all the 5 financial years the board of "Indusind Bank" has adequate no. of independent directors i.e. 60% in 2011-12 and 2012-13, 56% in 2013-14, 63% in 2014-15 and 2015-16, which is at least 50% or more than 50% of the total strength. Bank comply the required number of independent directors as well as at least one woman director in board as per the policy of "corporate governance".

B) **Meeting of Board:** As per SEBI guidelines the board shall meet at least four times a year, with a maximum time gap of four months between any two meetings.

It has been observed from annual reports of bank that bank has conducted more than 4 board meeting in each of the financial year with a time gap of four months between two meetings. It's complying with the provision of "corporate governance" as laid down by SEBI in clause 49.

C) **Composition of Audit Committee:** As per Clause 49 of SEBI the audit committee shall have minimum three directors as members. Two-thirds of the Members of audit committee shall be independent directors

It has been observed from annual reports of bank that bank has at least three directors in Audit Committee. Also observed that Audit Committee of each bank also consist two third independent directors.

D) **Meeting of Audit Committee:** The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings.

It has been observed from annual reports of bank that bank has conducted more than four meeting of Audit Committee in each of the financial year with a time gap of four months between two meetings. It's complying with the provision of "corporate governance" as laid down by SEBI in clause 49.

E) **Report on "corporate governance":** There shall be a separate section on "corporate governance" in the Annual Reports of company, with a detailed compliance report on "corporate governance".

It has observed that there is a separate section on "corporate governance" in the Annual Reports of bank, with a detailed compliance report on "corporate governance" as per clause 49 of SEBI on "corporate governance".

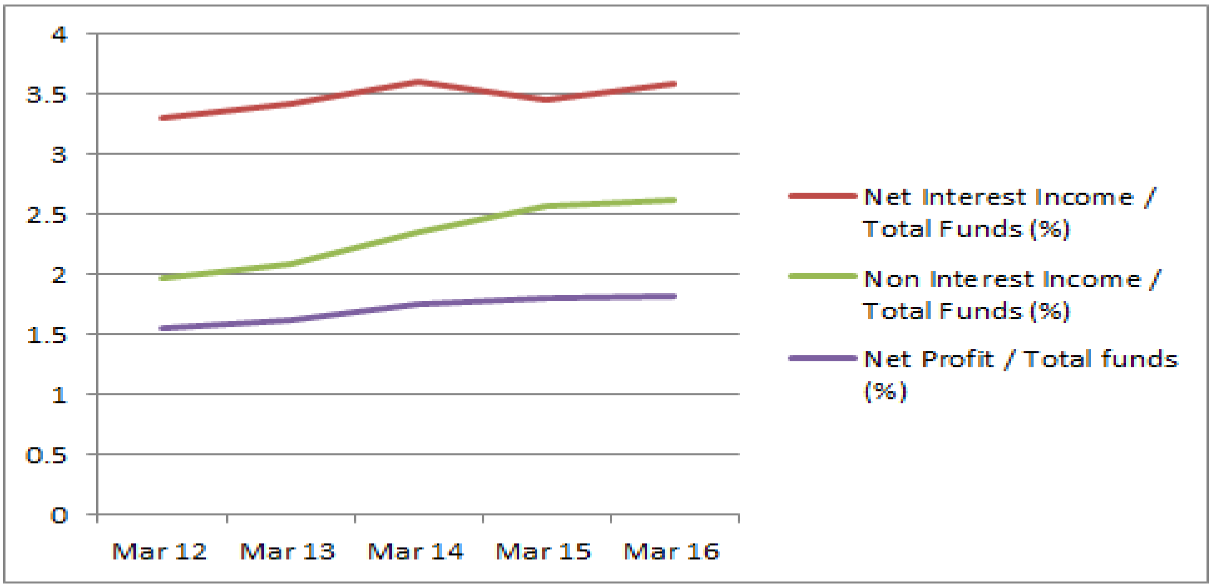

Figure 1: Showing the trend of income and profit with respect to ratio

Conclusion

Sound banking system is very important and vital for any economy especially for developing economy like India. Banks have a special nature of business due to dealing with the public money. Hence corporate governance is required to pursue the good business ethics and professionalism. It should protect the interests of all stakeholders and the society. Corporate Governance is vital for better management of any organization. There has been increasing demand for transparency in functioning of banks and financial institutions in view of several scams.

The research found that the "Indusind Bank" is administering the provisions and guidelines of "corporate governance" as per the directions from regulators. The performance of "Indusind Bank" is very good with respect to profits, assets and deposits. The research found that the "Indusind Bank" administered the board meetings regularly to provide the powerful and successful leadership, functional affairs and to monitor the performance of bank. It is observed that the "Indusind Bank" instituted transparent documentation and crystal-clear management processes for policy evolution, execution, decision making, supervising, control and reporting. Despite the fact the "Indusind Bank" is performing well and executing provisions of "corporate governance".

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