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CORPORATE GOVERNANCE PRACTICES IN THE BANKING SECTOR: AN INDIAN CASE STUDY ANALYSIS

Abhai Sreekumar. C. A[1]

ABSTRACT

Corporate governance is a major element in ensuring the stability, transparency, and integrity of banking institutions, in India. The corporate governance practices are prevalent in the banking sector and analyses their impact on bank performance and stakeholder trust. Drawing upon a comprehensive literature review, the article examines key components of corporate governance, including board structure, risk management, compliance, disclosure, and stakeholder engagement. The article provides an insight on corporate governance practices in Indian banks.

The obstacles banks confront in putting strong governance processes in place, including ineffective boards and cultural dynamics. This research adds to the body of knowledge already available on corporate governance in the banking industry and offer regulators, investors, bank executives, legislators, and other stakeholders' useful information. Through comprehension of the factors that determine efficient corporate governance and application of insights from Yes Bank case studies, Indian banks may improve their governance structures, reduce risks, cultivate confidence, and propel long-term expansion in the ever-changing banking industry. The research adopts a case analysis approach to provide detailed insights into corporate governance practices within Indian banks. Notable research is conducted on Yes Bank, a leading private sector bank in India, to illustrate how ineffective corporate governance impacts the sustained growth, risk management, and value creation for stakeholders. This research employs a multifaceted research methodology aimed at obtaining comprehensive insights into corporate governance practices within the Indian banking sector.

1. Ph.D. Scholar Alliance School of Law, Alliance University

Keywords: Corporate Governance in Banks, Indian Banking Sector, Yes Bank Scandal, Banking Crisis, Banking Governance Failure.

INTRODUCTION

A sound corporate governance plays a pivotal role in the success of a financial business. One of the primary causes of financial crises is said to be inadequate corporate governance. Ineffective corporate governance practices cause businesses to perform poorly financially, which eventually results in company failure. Effective corporate governance procedures are essential to generating shareholder value and preserving the confidence of both consumers and investors. The reporting, control, and accountability roles of the board of directors are outlined in corporate governance. The framework for setting the company's objectives, as well as the means of accomplishing them and monitoring their advancement, is provided by corporate governance.[2] The use of corporate governance as a weapon to combat financial fraud has grown, and it is necessary to assess how strictly corporate governance principles are enforced. The market may become less confident in a bank's capacity to manage its assets and liabilities as a result of poor corporate governance practices. The goal is to ensure that managers act in the best of shareholder's interest. The most widely accepted viewpoint is that of agency theory[3]. It served as the foundation for many institutions' development of governance norms, rules, and principles.

The corporate governance theories' application differs in the developed and developing worlds. The agency theory might be more applicable in poorer nations with lax regulatory frameworks. The complexity and diversity of corporate operations cannot be adequately explained by the current theories of corporate governance. One theory alone cannot adequately describe effective corporate governance; rather, a combination of several is required. The selection and makeup of the board are influenced by many theories, discussing board's ability to steer the company toward success and prevent catastrophe.[4] The division of ownership and power inside organizations is supported by proponents of corporate governance. In response to widespread unethical commercial practices and company failures, the notion of corporate governance was developed. Investor confidence in the economy should rise as a result of corporate governance overall. The contributions to performance of the enterprises oversee are better understood through the application of agency theory, stewardship theory, and resource dependence theory. The alignment of owners' and managers' interests is a concern for agency theorists. Agency theorists should focus on the connection between company performance and the composition of directors. Stakeholder theorists examine the quandary around the interests of various stakeholder groups, whereas agency theorists concentrate on the competing interests between principals and agents. Stewardship theorists concentrate on the percentage of executive managing directors on board. Although they begin with different premises, agency theorists and stewardship theorists both concentrate on the interaction between principals and agents. As a result, some argue that stewardship theory is an adjunct to agency theory rather than a stand-alone theory.[5] Anyone who has an impact on or the ability to influence the accomplishment of the company's goals is considered a stakeholder. Stakeholder

2. Subrata Das & Dr. Mitali Chinara, *Corporate Governance and Performance of Commercial Banks in India*, The Journal of Indian Institute of Banking & Finance 21-32 (2022).
3. Dr. Srinivasa Rao Chilumuri & Ph.D. MBA, Corporate Governance in Banking Sector: A Case Study of State Bank of India, 8 IOSR J. Bus. & Mgmt. 15 (2013).
4. Prashant Kumar Gupta & Seema Sharma, Role of Corporate Governance in Asset Quality of Banks: Comparison Between Government-Owned and Private Banks, 49 Managerial Fin. 724 (2023).
5. Rajat Deb, Corporate Governance Practices in Indian Banks, 2 J. Bus. Mgmt. & Soc. Sci. Res. (JBM&SSR) 5 (2013).

theorists contest the notion that shareholders and corporate governance are mutually reinforcing risk-takers. Stakeholder theory proponents expand management's accountability to include business morality, profit maximization, and corporate social responsibility. To avoid bank failure, good corporate governance is crucial. In order for the bank's management's shoddy systems to not only violate stakeholders' rights and also increase the bank's risk exposure to the entire economy.

GOVERNANCE IN CORPORATE BANKING SECTOR

The most commonly cited, straightforward definition as "Corporate governance is the system by which businesses are directed and controlled." This definition was provided by the Cadbury Committee in their 1992 UK Code on Corporate Governance.[6] Over time, the narrow definition of corporate governance as the maximization of shareholder value gave way to the more expansive goal of maximizing the value of all stakeholders. This shift in perspective gained traction and affected the decisions and behaviors of corporations. The Basel Committee on Banking Supervision first released its guideline, "Enhancing corporate governance for banking organizations," in the month of September 1999. It was subsequently updated and revised, but this was the banking industry's point of view. "A manner in which business and affairs of a bank are governed by the board of directors and senior management" is how the committee defines corporate governance (BCBS, 2015).[7] The Reserve Bank of India's "Discussion paper on Governance in Commercial Banks in India (2020)" provides a thorough definition of corporate governance as well. This concept is based on the Organization for Economic Co-operation & Development's (OECD) 2004 definition.[8] A company's system of interactions with its shareholders, management, board, and other stakeholders is referred to as "corporate governance." It provides the framework for goal setting, implementation, and performance monitoring. It facilitates the definition of roles, responsibilities, and decision-making procedures.

The public has become interested in corporate governance since the global financial crises. The financial markets' collapse made it clear that banks' corporate governance policies needed to be reviewed. It brought to light the shortcomings of both internal and external control mechanisms, seriously undermining public trust in enterprises, their statutory bodies, auditing, consulting, and rating agencies. To maintain stable corporate governance, it became necessary to control the current systems. The compensation of statutory body members is seen by shareholders as a governance procedure. Regulators view strong governance as the solution to the instability and insolvency of banks.[9] Corporate governance techniques are used by banks to improve board action oversight. All norms and guidelines pertaining to goals, plans, and the framework for managing risks, as well as the organization of the firm, responsibility distribution, reporting channels, accounting practices, and compensation policies, are included in internal governance. Additional subjects covered by internal governance include company continuity planning, outsourcing agreements, and efficient IT systems. Corporate governance procedures attributed to the Principles of Corporate Governance for Supervised Institutions are greatly influenced by

6. Klaus J. Hopt, Corporate Governance of Banks and Financial Institutions: Economic Theory, Supervisory Practice, Evidence and Policy, 22 Eur. Bus. Org. L. Rev. 13 (2021).
7. Azam Ahmadyan & Mehdi Ghasemi Ali Abadi, Effect of Corporate Governance on Banking Failure, 7 Adv. Mathematical Fin. & Applications 361 (2022).
8. Hopt, *supra note* 5.
9. B. Díaz, Samuel O. Idowu & Philip Molyneux, Corporate Governance in Banking and Investor Protection (Springer Int'l Publishing AG, 2018).

the concerns expressed by stock market players regarding governance in Polish banking market.[10] The collection of guidelines that govern how supervised institutions interact with their clients and shareholders on the inside and outside, as well as how their internal supervision system operates, systems, and functions.

The rules and regulations imposed on market participants, especially banks, are indicative of corporate governance. Its problems have been brought up for a long time, both domestically and abroad. Corporate governance, in accordance with agency theory, is focused on the examination of the connections that occur between shareholders and the agents they choose. On behalf of the owners, these representatives run and govern the business with the goal of maximizing shareholder value. In order for the agents to carry out their duties, the owners, on the one hand, provide them with some authority. Conversely, the owners are waiting for the judgments made by the agents to continue reflecting their interests citing agency theory as justification, corporate governance aims to ensure that owners receive a return on their investment. It is emphasized that handling the division of ownership and control is the primary responsibility of corporate governance. Investors have higher expectations of the management in terms of return on investment and their reputation. In order to maximize returns on investments, it is thought that shareholder concentration and legal investor protection are crucial to the efficiency of corporate governance practices. On the other hand, when ownership and control are separated, senior management's interests are controlled, and shareholders are safeguarded. Furthermore, the idea of governance is connected with the widespread application of organizational entities for the purpose of resolving conflicts amongst members of any given organization.[11] Depending on its goals, corporate governance issues highlight two main methods of corporate governance. Specifically, the stakeholder group model and the shareholder model. The interests of owners are given top priority in the shareholder model, which is a limited perspective on corporate governance. This strategy assumes that top management represents shareholders and is responsible for enhancing share value. This perspective is in line to agency theory. On the other hand, a comprehensive approach to corporate governance is represented by the stakeholder group model. Both shareholders and stakeholders may make claims about the corporation under this approach.

CORPORATE GOVERNANCE IN BANKING SECTOR

The health of the banking sector and the economy as a whole depends on sound corporate governance, according to the first sentence of the Basel Committee on Banking Supervision's 2015 Guidelines on Corporate Governance Principles for Banks. Since the global financial crisis, corporate governance in banks and other financial organizations has received a lot of attention. The main reason behind the financial crisis is related to the inadequacies in corporate governance within financial institutions. It should go without saying that, in terms of theory, practice, and supervision, banks are unlike non-banking companies. This acts as the essential cornerstone for the banking sector's particular regulation and supervision.[12] The incredibly low capitalization of banks relative to non-banking entities, their intricate and opaque organizational structures and business practices, their basic need for trust and the risk of bank runs that goes along with it, and—above all—their macroeconomic role as evidenced by their crucial

10. Hopt, supra note 5.
11. Sunaina Kanojia & Sawaliya Priya, Corporate Governance in Indian Banks Post Subprime Crisis, 1 Int'l Interdisciplinary Bus. Adv. J. 50 (2016).
12. Joanna Rachuba, Corporate Governance in Banks: A Literature Review, 180 Scientific Papers of Silesian Univ. of Tech. Org. & Mgmt. (Zeszyty Naukowe Politechniki Slaskiej. Seria Organizacji i Zarzadzanie) (2023).

role in the economy, which in turn justifies their extensive state regulation and legislation, are some of the distinguishing features of banks. The recurring character of financial crises is what sets them apart from other types of crises, such as the structural fault that perceives banks as “too big to fail” or “too interconnected to fail,” which suggests that state intervention is necessary if a bail-in is simply unavailable or looks to be ineffectual.

Corporate governance has an effect on bank risk-taking, which includes credit risk and bankruptcy risk as well as an increase in risk-taking. A great deal of focus is placed on particular aspects of corporate governance, such as the efficacy of boards, regulations regarding CEO compensation, and risk management procedures, which influence banks’ propensity to take risks. Not only are creditors and important stakeholders in internal corporate governance mechanisms, but shareholders also need to be involved. Overly safeguarding the interests of owners might lead to the bank taking on more risk, which would not meet the expectations of other stakeholders. Systemic risk and corporate governance are extensively covered in the banking literature, thus making it is possible to identify areas of concern brought on by corporate responsibility as bankers expand into emerging markets.[13] The impact of corporate governance on bank risk is also the result of the reverse relationship. It is evident from the regulatory framework governing bank operations that banks functioning as subsidiaries are less risky than branches. In the banking industry, banks with shareholder-friendly corporate governance policies are linked to higher bank and systemic risk. The degree of risk-taking and shareholder-friendly corporate governance standards are positively correlated in institutions that are bigger and come from countries that have strong and advanced banking standards.

Corporate governance only shows a statistically negligible or negative correlation with bank stability when macroprudential policy instruments are either few or not used at all in the nation. The composition of shareholders is a major factor in bank failure. The likelihood of a bank failing is not statistically correlated with the CEO’s ownership position; on the other hand, a large ownership percentage of non-executive directors greatly raises the chance of failure. This association can be explained by the risk to which directors who aren’t executives are more vulnerable. As equity holder power grows, so does the tendency toward riskiness.[14]

For scattered owners and concentrated shareholders, there are different relationships between capital regulations, deposit guarantee policies, and prohibitions on bank operations related to risk-taking. These findings are constrained in a few ways, though. First, they are limited to times of crisis in the financial industry. Second, at banks that have credit committees, the strength of this relationship is higher. The analysis of credit risk and corporate governance is carried out up to the percentage of non-performing loans. A larger board is associated with lower credit quality, and the percentage of poor loan losses to total gross debt indicates a greater increase in the share of non-performing loans. However, lower percentages of non-performing loans show that loan quality is improved by statutory organizations having a majority of members who are not executives and the chief executives in dual role. Better loan quality is correlated with a smaller percentage of block holders, a lower debt load, and fewer board meetings.[15] On the other hand, banks with higher-quality loan portfolios have smaller levels of debt in their capital structures. The percentage of non-performing loans in assets has a negative correlation with board size and executive compensation, showing a negative correlation

13. Das, *supra note* 1.

14. Ahmadyan, *supra note* 6.

15. R. Singh et al., Corporate Governance in Indian Banking Sector: An Analysis, 12 J. Xi’an Univ. Architecture & Tech. 1006 (2020).

among the proportion of non-performing loans in assets and the number of related auditing or compensation committee participants. Reduction in risk-taking indicates improved governance of companies. Better company governance practices are correlated between higher-quality mortgages and overall loans. What sets them apart is a higher ratio of loss on loan allowed to provision.

One way to measure corporate governance is by looking at the size and level of independence of the boards, the dual role of the CEO, the ownership by executive directors, and the percentage of non-performing loans in smaller banks. These smaller banks have lower non-performing loan shares because their corporate governance mechanisms are stronger, and they tend to steer clear of riskier ventures. The efficacy of corporate governance measures may be compromised in medium and big banks, which are typified by substandard loan quality and substantial losses incurred mostly during the financial crisis. The corporate governance procedures of medium and big banks are comparatively weaker because of their inherent complexity and the risk that is transferred between the parent bank and its overseas branches or subsidiaries.[16] Corporate governance has a significant impact on the amount of risk that banks assume.

CHALLENGES IN CORPORATE GOVERNANCE

The stability of the banking sector has been seriously threatened by non-performing assets, or NPAs. It is now a major worry for the whole financial system. It is therefore crucial to address the NPA issue as soon as possible, particularly since banks have become increasingly important in maintaining economic stability and prosperity throughout time. Furthermore, it has become even more crucial due to the rise in cross-border financial activities because bank collapse can have a cascade effect on several countries. The World Bank's World Development Indicator database shows that NPAs are growing at an alarming rate, raising concerns about asset quality.[17] Even still, compared to industrialized economies, asset quality research is not common, particularly in developing economies. In India, banking industry are joining the worldwide financial system and embracing global standards at a faster rate. Approximately three-fourths of all financial institutions' assets are held by scheduled commercial banks, making them major participants in the Indian financial system. The public sector banking institutions, private sector banking institutions, foreign banks, micro finance banks, payments banks, and district rural banks are the six categories into which they fall. These groups are based on the ownership and/or type of operation of the banks. Conventional, shareholder-oriented banks that practiced good corporate governance performed worse than banks with reduced shareholder-influenced boards and less shareholder rights.[18] The laws and regulations governing bank supervision have a strong foundation in the special controlling mechanism of banks along with other monetary institutions. Recently, the goal of (non-bank) businesses has been the subject of heated debate. Stakeholder governance is more significant to banks than shareholder governance, especially with regard to creditor or debtholder governance. One of the main issues is the makeup and credentials of the board. Legislation aims to bolster competent and autonomous oversight. Special problems of bank governance include the pay of bank executives, senior directors, and important office holders, as well as the duties and obligations of bank directors with respect to risk and compliance. Claw-back clauses are already present and are advantageous. They can be imposed by legislation or introduced by banks.

16. Hopt, *supra note* 5.
17. Gupta, *supra note* 3.
18. Singh, *supra note* 14.

Growing interest has been shown in corporate governance, which affects both financial and non-financial businesses. The amount of special interest given to banks is rising. The soundness of the financial system and the safety of the entire economy depend heavily on banks operating consistently. The aim is to structure the function of corporate governance frameworks and their influence on bank productivity, profitability, and risk-taking. This method demonstrates the breadth of the experimentally investigated connections between corporate governance and key facets of bank operations. The OECD Principles of Corporate Governance (Organisation for Economic Co-operation and Development, 2004) provide an overview of governance concerns. The web of connections that exists between executives and equity holders, supervisory authorities, and other stakeholders is known as corporate governance. Moreover, corporate governance establishes a framework that facilitates the establishment of the corporation's goals, strategies for accomplishing them, and oversight instruments. Corporate Governance Principles for Banks (Basel Committee on Banking Supervision, 2014) has addressed the subject of governance in banks. Good corporate governance plays a critical part in ensuring the banking industry runs smoothly.[19] Simultaneously, potential flaws in bank governance are spreading throughout the financial system and impacting the overall state of the economy. "Safeguarding stakeholders' interest in conformity with public interest on a sustainable basis" is the main goal of corporate governance in banks. Furthermore, the interests of depositors will always come before those of shareholders. Corporate governance is extremely special to banks because they are public trust organizations, which presents considerable implementation issues. Economies are negatively impacted by corporate governance flaws in banks.[20] This is due to the significant role banks play in capital mobilization and allocation, which lowers capital costs and promotes economic growth.

The traditional approach to corporate governance is centred on safeguarding the interests of shareholders insufficiently inclusive for banks. This is brought about by characteristics that set banks apart from non-financial businesses. Because lending activities are funded by customer deposits, banks, as monetary intermediaries, are distinguished by a superior degree of financial leverage.[21] Compared to other sectors, the banking industry is subject to a stricter regulatory framework and more robust supervision, which is said to play a unique function. These regulations are a direct result of how crucial banks are to the security of depositors, the redundancy of the payment gateway, and mitigation of systematic risk. As banks operate on the confidence of the public, ethics play a crucial part in how they conduct business. Emphasis is also drawn to the intricate and opaque nature of bank operations. Stakeholders' capacity to keep an eye on management decisions is hampered by the intricacy of bank operations. On the other hand, banks' high degree of information asymmetry is frequently blamed for the low transparency.[22] For instance, it is not always possible to observe the quality of bank loan activity, and banks may exercise their discretion to manipulate the amount of risk they are accepting. Compared to non-financial companies, banks are able to alter the risk structure of their assets faster. The corporate governance practices of financial and non-financial organizations differ from one another. Compared to non-financial organizations, banks are distinguished by having more committees within their organizational structures and statutory bodies with bigger average sizes. Moreover, bank CEOs' income from options is paid out in a lesser proportion than their overall

19. Gupta, *supra note* 3.
20. Ahmadyan, *supra note* 6.
21. Rachuba, *supra note* 11.
22. Hopt, *supra note* 5.

compensation and bonuses. Additionally, CEOs of non-financial companies own more shares than CEOs of banks.

STUATORY REGULATOR AND THE ROLE OF RBI

The Banking Act clearly indicate the government's intent to ensure the stable growth of the economy. Establishing trust within the industry will be crucial for India's continued growth. The issuance of loans by a banking company is included in the definition of "business of banking" in Section 5(b) of the BR Act. All banks, public and private, including small financing banks, regional and rural banks, and others, must register with the Reserve Bank before they can conduct digital lending. In India, banking is majorly governed by the Reserve Bank of India (RBI).

As "Formal Lenders," non-banking financial corporations (NBFCs) and banks are among the organizations engaged in lending. They report loans to credit information companies (CICs) and are registered with national regulators. These CISs, which compile borrowers' and borrowers' repayment records, will serve as third-party ledgers for loans made by official lenders. In addition to these official lenders, there are other local lenders known as "Informal Lenders" that make loans beyond the jurisdiction of federal and state banking regulators. These lenders are frequently accused of using predatory lending methods. Collectively, these establishments represent the principal institutional players in the digital lending ecosystem, encompassing activities such as loan provision, data collection and processing for credit risk evaluation, and linkage establishment between different institutions and digital lending stakeholders. In addition to banks, NBFCs that satisfy the primary business criteria must register with the RBI under the RBI Act. An NBFC is defined as a company that is primarily engaged in financial activity and is registered under the Companies Act. Lending and advances, buying stocks, bonds, debentures, assets issued by municipal or state governments, or other marketable instruments of a similar kind, leasing, hire-purchase, insurance, and chit enterprises are a few examples of these types of businesses.

The States are empowered under the Indian Constitution to pass legislation concerning money lending and moneylenders, in addition to these central laws. Most states have regulations in place that are expressly related to money lenders. Numerous of these rules are comprehensive and include stringent guidelines for overseeing and managing the money lending sector. These cover clauses on business registration, business licenses, maintaining debtors' account statements, maximum interest rates, and dispute resolution processes.

THE 'YES BANK' SCANDEL AND THE NEED FOR GOOD CORPORATE GOVERNANCE

The 2020 revelation of the Yes Bank crisis serves as a sobering reminder of how crucial sound corporate governance is to the financial industry. In 2003, Ashok Kapur and Rana Kapoor created Yes Bank. Yes Bank, which is well-known for lending aggressively to corporations, quickly grew its corporate loan book. Rana Kapoor's reappointment as managing director (MD) and CEO of Yes Bank was approved by the company's shareholders on June 12, 2018, with effect from September 1. On September 19, 2018, however, Kapoor's tenure was not extended by the Reserve Bank of India (RBI). It was planned for Kapoor to leave by the end of January 2019. Citing worries over corporate governance, which reduced bank's foreign currency issuer rating on November 27, 2018, and revised the outlook from "stable" to "negative." Ravneet Gill, the CEO of Deutsche Bank India, was appointed by Yes Bank on January 24, 2019. On April 26, 2019, Yes Bank experienced its first-ever quarterly loss due to an increase in problematic loans. Then, on July 17, 2019, Yes Bank revealed a 91% decline in first-quarter earnings due to a severe decline in asset quality and a spike in provisions. CEO Gill of Yes Bank stated on September 10, 2019, that the lender was almost finalizing an agreement to sell a minority stake to a multinational technology business in order to raise additional money. A global investor made a legally binding offer of $1.2 billion to Yes Bank on October 31, 2019. Yes Bank announced a larger-than-expected loss for the second quarter of 2019 on November 1, 2019, as provisions increased to 13.36 billion rupees and the bad loan ratio worsened to 7.39%. Yes Bank announced on November 29, 2019, that it planned to raise as much as $2 billion by issuing a sizable number of additional shares to family offices and institutional investors. The Reserve Bank of India (RBI) had gained control over Yes Bank's board and imposed a freeze on withdrawals, capping them at Rs 50,000, on March 5, 2020. Lastly, The Central Bureau of Investigation (CBI) filed a case on March 8, 2020, alleging criminal conspiracy and deception under applicable sections of the Prevention of Corruption Act against Kapil Wadhawan, the former chairman of Dewan Housing Finance Ltd (DHFL), and co-founder Rana Kapoor.[23]

The bank's co-founder Rana Kapoor and the promoters of Dewan Housing Finance Limited (DHFL), Kapil and Dheeraj Wadhawan, were accused of fraud and money laundering in the controversy. The Enforcement Directorate (ED) said that through dubious transactions, Kapoor and the Wadhawans embezzled money totaling ₹ 5,050 crore. Yes Bank had purchased ₹ 3,700 crore worth of debentures from DHFL, which then lent ₹ 600 crore to DOIT Urban Ventures Pvt Ltd, a company that Kapoor and his family owned beneficially. As a result of the incident, Yes Bank's financial standing steadily deteriorated, forcing the Reserve Bank of India (RBI) to take quick action to safeguard depositor funds. A liquidity crisis resulted from the bank's shares collapsing and a run-on deposit. Significant governance flaws at Yes Bank were exposed by the affair. Due to the bank's underreporting of non-performing assets (NPAs), management was entirely replaced. The NPA of Yes Bank was seven times greater than the original accessed amount according to their audit book, on the RBI's Asset Quality Review (AQR). The Yes Bank crisis highlights how crucial strong corporate governance is to preserve the integrity and well-being of the banking industry. The NPA of Yes Bank was seven times greater than the actual reported amount in their audit book, according to the RBI's Asset Quality Review (AQR).[24] In theory, independent directors should be able to make impartial decisions regarding strategy and risk control. But this system backfired poorly for Yes Bank, as the bank continued to offer loans without taking the borrowers' ability to repay them into account. Additionally, the audit committee showed a lack of intelligence by endorsing the management's recommendations. The bank's financial reporting process could have been effectively overseen by a strong audit committee, and the scandal ought to have been notified as part of the bank's internal governance procedures. Furthermore, Yes Bank's interactions with DHFL and DOIT Urban Ventures Pvt Ltd lacked transparency, which may have prevented the scandal by making parties less aware of the risks involved. Yes, Bank lacked adequate risk management procedures due to which it gave loans to businesses that were experiencing financial difficulties. The Reserve Bank of India (RBI) delayed taking notice of this and by the time the RBI stepped in, the Yes bank's net worth had already dropped.[25]

23. Remya Nair, *How Yes Bank plunged into crisis: A timeline*, theprint.in (Mar. 7, 2020), https://theprint.in/economy/how-yes-bank-plunged-into-crisis-a-timeline/377198/.

24. *Failure In Yes Banks Corporate Governance-Analysis*, elearnmarkets.com https://www.elearnmarkets.com/school/units/corporate-governance/landmark-corporate-governance-failures-in-india-yes-bank.

25. Etbfsi, *Yes Bank crisis: Ten lessons to prevent bank failures in future*, bfsi.economictimes.indiatimes.com (Mar. 17, 2020), https://www.elearnmarkets.com/school/units/corporate-governance/landmark-corporate-governance-failures-in-india-yes-bank.

Strong corporate governance is essential for ensuring integrity and health to the banking sector. The Yes Bank failure is an illustration to this. Due to its governance shortcomings and inappropriate regulatory monitoring, led to the root causes of the crises. The Yes Bank debacle must be prevented from repeating in the future by ensuring a robust governance structure. The banking sector's necessity for transparency, accountability, effective risk management, and robust regulatory control serves as a reminder of potential consequences resulted from governance failures and the critical role of regulatory supervision in averting such crises. Ensuring public trust and preserving financial stability are two main advantages of a good corporate governance for banking institutions. In the end, good governance ensures the integrity and credibility of commercial banks by safeguarding the interests of investors and depositors in addition to the traditional oversight provided by the organization. Good corporate governance is essential to the banking industry's and also to the economy's overall health. By transferring money from depositors to businesses, it promotes enterprise and contribute to economic growth. Therefore, banks play a vital role in the economy. Three categories including off-site surveillance, prompt corrective action, and disclosure and transparency, forms the foundation of India's corporate governance framework. These controls are intended to guarantee transparent and accountable bank operations.

FINDINGS

RBI acts as the guardian for the banks in India. Through the periodic reporting of all financial engagements undertaken by the banks, the RBI can keep a corporate check on the banks. An off-site inspection of the accounts of the banks ensures transparency in the functioning of the banks. It allows the RBI to list deteriorating banks and take timely measures against them. Such banks shall be subjected to structured plans for implementation and rehabilitate the financial soundness of the bank.

The breakdown of the financial system in a nation will impact on the entire world due to the current glocalization of financial systems. During the international monetary crisis of 2008, such a catastrophe befell the global financial system. The quality of assets is a problem for central banks everywhere. The stability of the banking system has been severely undermined by poor asset quality, which has had dire repercussions for the countries that depend mainly on the banking sector. India serves as a role model for other emerging nations who struggle with low asset quality. It is a G20 member even though its economy is still in development. It has made efforts to raise its low asset quality. The network of official and informal interactions inside a firm, as well as their implications for society at large, are all included in corporate governance.[26]

Similarly, the idea of corporate governance is unduly limited, primarily pertaining to the enforcement of ownership rights, despite the fact that it stretches the power to control the stakeholders beyond equity holders and bank executives. It is stated that corporate governance 'implies a broader, social and systemic context for corporations to operate as well as the necessity to take into consideration the conditions and expectations coming from the macroeconomic environment'.

Every stakeholder group is eager to pursue its own interests, including depositors, workers, management and supervisory boards, shareholders, and even the government. This behaviour is related to varying risk appetites, causes friction, and reduces the efficacy of bank operations. It was widely noticed during the most recent financial crisis, which is why new corporate governance guidelines—particularly regarding internal organizational structures—were put into place as a result.

26. Gupta, *supra note* 3.

Like this, codes of good practice, general corporate governance principles, and banking sector-specific principles are given special consideration when discussing important issues pertaining to corporate governance in banks and the associated regulatory environment. Based on their corporate governance declarations, commercial banks and selected cooperative banks declare their conformity with the Good Practices of Companies; for other institutions, the results come from a poll. Furthermore, the adherence to corporate governance principles yields insights on the aspects of corporate governance that require improvement, including internal control, credit risk assessment, and management integrity.

Effective corporate governance procedures have the potential to maintain the rights of all stakeholders. Banking supervision is viewed as a means of ensuring that bank operations comply with existing laws and the best practices for banking. In this regard, the issue of information asymmetry in banks should receive a particular focus, as well as the potential remedies.

An area of corporate governance examines the relationships between shareholder structure and profitability, paying attention to the shareholdings, and the amount of risk that banks take, justifying it with the various incentives of CEOs to achieve higher profits. This is because of the regulatory environment as has been seen, there is a disarray in the rules and corporate governance guidelines.[27] Research indicates that the advantages derived from the distinct abilities and backgrounds of individual members surpass the expenses incurred in the operation of a sizable bank board.

CONCLUSION

Selective attention to corporate governance components may be relevant to various aspects of bank operations. The concern for conventional companies has been preserving and increasing the value for their shareholders. When it comes to banking, depositor risk and the potential for contagion are more significant than those involving consumers of produced goods.[28] Other stakeholders' interests seem to matter more in banks than they do in non-banking financial businesses and non-financial organizations. When it comes to banks, the risk associated with deposits and the potential for contagion take precedence above shareholder interests. As a result, a key goal of banking supervisors' recent attention to bank governance is the preservation of depositors' and customers' interests. This can be achieved through strengthening corporate governance laws, policies, and standards in banks. This is imperative as the size, diversity, interconnection, and complexity of India's financial sector continue to rise.

It should be no surprise that these qualities of the banks call for a unique way of corporate resolution. Surprisingly, though, little emphasis has historically been placed on this, and economic studies regarding the unique governance of banks have just recently begun. The 1980s saw the publication of one of the field's initial works. This delay in the field's investigation appears to have been caused by a few circumstances. CEOs of banks who acted largely out of shareholder interest produced worse outcomes. Bank boards have steered in a direction that is aligned with the interests of shareholders, who provided their holdings in a suitably diversified risk than, the borrowers of the bank. Independently governed banks were managed worse. Banks controlled by stockholders made a greater profit than banks operated by directors before the financial crisis. This is especially true when it comes to director independence, which can have detrimental effects on firms engaged in non-financial transactions as well.

Expertise and experience are substantially more valuable, that is, assuming that obvious

27. Rachuba, *supra note* 11
28. Ahmadyan, *supra note* 6

conflicts between interests are prevented. The most organized solution would be to target the makeup of bank boards to improve independent control in the best interests of creditors.[29] This could be accomplished directly by placing creditors on the board, or indirectly by assigning their interests to another person. It may make sense to have creditors on bank boards since they are less likely to take risks than shareholders. At the same time, it is true that bondholders may have an interest in limiting a bank's risk-taking, and that creditor interest is more focused. Ultimately, supervisors bear the official duty of safeguarding debtholder interests, and they can ensure that the risks taken on by the bank are brought up and taken into account by the board.

Using independent directors more specifically would be one way to influence the makeup of bank boards. Most people agree that standalone directors are necessary to oversee executive directors on behalf of stockholders. This agreement developed in America and the United Kingdom. It is ideal for nations where shareholding is generally distributed. However, the bank specialist knowledge and experience as being significantly more important than conflicts of interest when it comes to the free management or supervisory actions by board members of bank.[30] An apparent exception is to risk and audit committees, where independence is crucial. The official recommendations and the supervisory practice clearly place a premium on qualifications and expertise. As a result, bank supervisors place greater value on independent judgment than on having an independent background, even for independent directors. Bank supervisors who are closely monitored by the financial press following financial crises might be less in danger. An investigation into monetary impacts of this mutually beneficial connection among the government and the banking institutions becomes more crucial since the government is supposed to control by overseeing banking companies more carefully.

29. Das, *supra note* 1.

30. Singh, *supra note* 14.