

# Govt begins to walk the talk on governance in PSU banks

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Bank Boards panel lays down ethics code, compensation reforms framework

**GRAFic moves**

<p><b>What?</b></p> <ul style="list-style-type: none"> <li>▪ Governance, Reward and Accountability Framework (GRAF): a roadmap for public sector banks</li> </ul>	<p><b>Why?</b></p> <ul style="list-style-type: none"> <li>▪ To make PSBs more competitive against private sector rivals</li> <li>▪ Prepare them for possible mergers with each other</li> </ul>
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**How?**

- Ensuring that the best corporate governance practices are followed at PSBs
- Attune their functioning in accordance with various Central laws
- Also bring PSBs in step with governance models recommended by the Basel panel
- Incorporate code of conduct, compensation reforms, and rating systems



Vinod Rai, Chairman, Bank Boards Bureau

**Mumbai, April 14:**

To prime public sector banks (PSBs) to hold their own against nifty private sector rivals and also prepare them for possible mergers in the future, the Bank Boards Bureau (BBB) has drawn up an elaborate Governance, Reward and Accountability Framework (GRAF).

The GRAF seeks to ensure that corporate governance at PSBs is in keeping with various pieces of legislation, including the Companies Act, 2013, Banking Regulation Act, 1949, and Securities and Exchange Board of India (listing obligations and disclosure requirements) Regulations, 2015.

Further, the framework abides by the guidelines of the Basel Committee on Banking Supervision on corporate governance principles for banks. Among others, the principles deal with the board's overall responsibilities, board qualifications and composition, senior management, risk management function, compliance, internal audit and compensation.

The BBB was set up last year to make recommendations for selection of the chiefs of PSBs and financial institutions and help them develop strategies and capital-raising plans.

The Bureau has evolved a code of conduct and ethics that can be enforced across all PSBs to ensure the right behaviour.

It has also come up with compensation reforms so that best practices can be introduced in PSBs on the lines already prevalent in Central Public Sector Enterprises.

The BBB has evolved a relative performance rating system to assess the performance of PSBs, its directors and employees; and performance evaluation system based on which decision-making for the extension/termination of a whole-time director can be undertaken objectively.

Later in the fiscal, the Bureau will advise the government on evolving training and development programmes for management personnel in PSBs and help banks develop a leadership succession plan.

The BBB's GRAF move comes in the context of PSBs facing challenges on various fronts, including competition from new entrants, aggressive private banks and NBFCs eating into their market share on the loans front, and jump in bad loans.

The Bureau was operationalised after Finance Minister Arun Jaitley called for PSBs to be competitive, in his Budget speech of 2016-17. He had also said that a roadmap for consolidation of PSBs would be spelt out.

Probably taking a cue from the Finance Minister's observations, SBI made its move in that direction, merging with itself five associate banks and the Bharatiya Mahila Bank from April 1.

In January 2016, the then RBI Governor Raghuram Rajan said "...as bank health recovers, the issue of PSB mergers can be addressed...At the same time, some banks could benefit from governance help to deal with their current problems."

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