

RBI Governor calls for system to evaluate performance of bank chiefs

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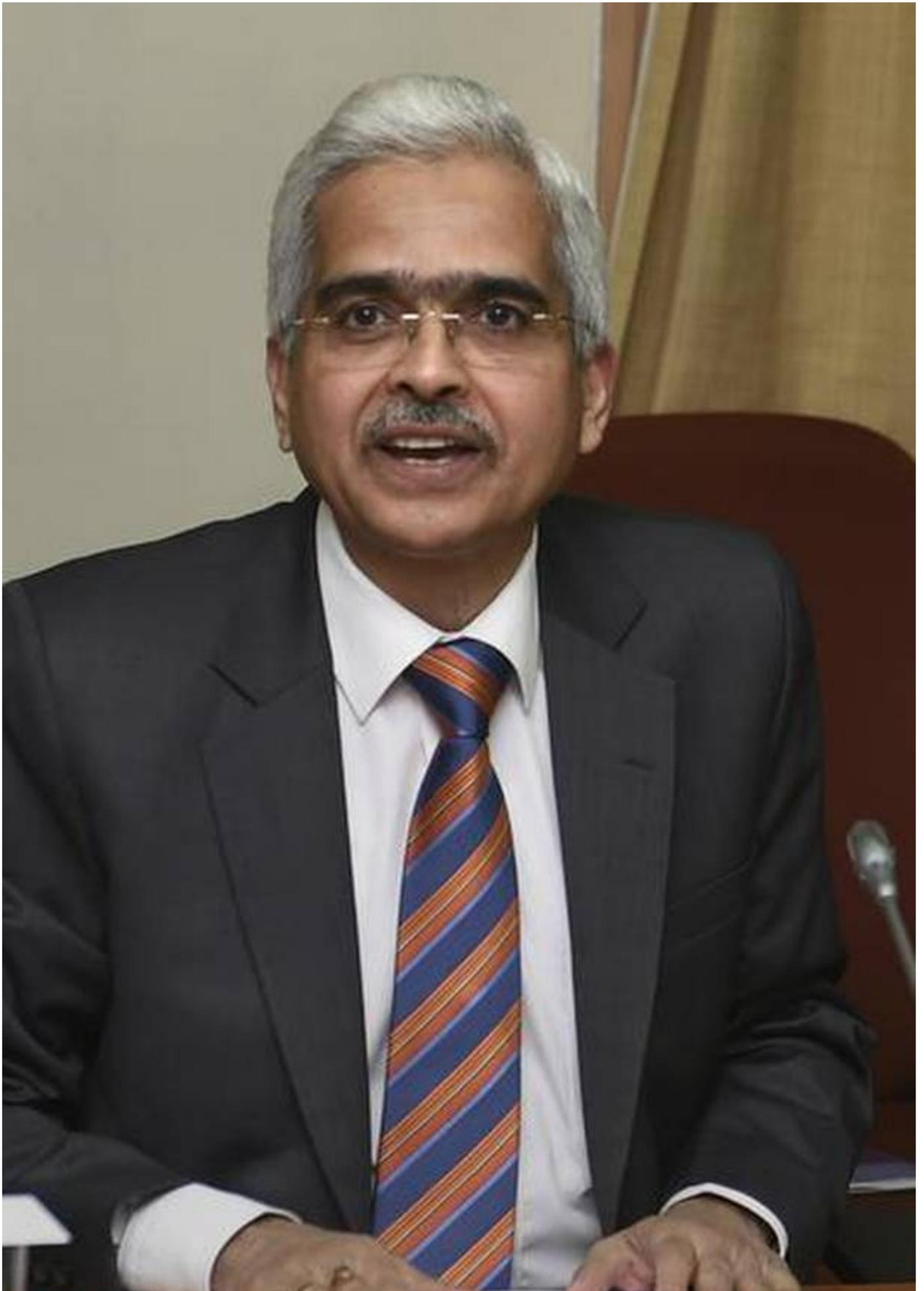
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The performance of chiefs of public and private sector banks should be closely monitored by the Board of Directors either through a sub-committee or an external peer group review, according to Reserve Bank of India (RBI) Governor Shaktikanta Das.

An effective performance evaluation system should also be put in place for banks to improve their financial and operating parameters, he said at NIBM, Pune, on Saturday.

In order to improve the functioning of the PSB boards and to foster corporate governance, Das emphasised, it is important to enhance their quality and stability by further streamlining appointment process, succession planning and compensation.

“These aspects could be evaluated by bank boards and reviewed by the Banks Board Bureau. We also need to create a pool of independent directors across various areas of expertise,” said Das. The Governor observed that governance issues in private sector banks originate from altogether different set of concerns. The issues mainly relate to incentive structure of their managements, quality of audits and compliance and also efficient functioning of Audit and Risk Management Committees.





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The Governor added that the Reserve Bank will continue to play a positive and constructive role to ensure private banks flourish. Das felt that to create potent risk management systems in banks, the Chief Risk Officers (CROs) have to play an effective role and should be directly accountable to Managing Directors, Chief Executive Officers and Risk Management Committee of the Board.

“Along with risk management, compliance function in banks is one of the key elements in their corporate governance structure. These have to be adequately strengthened and made sufficiently independent. For the compliance function to be effective, it must be supported by a healthy compliance culture within the organisation,” said the Governor.

Pointing out that most bank frauds can be traced to absence of effective controls, the RBI chief said that an essential element of an effective system of internal control is a strong control mechanism.

Even though the government’s capital infusion has helped public sector banks improve their balance sheets, Das stressed that PSBs should not become too dependent on this source. Depending upon individual situations, PSBs should also access the capital market.

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