

Govt moves to reform bank boards: The six new rules you should know

Experts say it won't be easy to appraise general managers because the board won't be knowledgeable enough

Anup Roy | Mumbai August 30, 2019 Last Updated at 23:02 IST



Finance Minister Nirmala Sitharaman | PTI

The government on Friday moved to reform the boards of public sector banks (PSBs), but fell short of giving up control over the top management appointments — considered to be the key to efficient functioning of PSBs.

Finance Minister Nirmala Sitharaman on Friday announced a host of measures

aimed at making PSBs more efficient. These included allowing banks' boards to appraise the performance of the senior management —from the level of general manager to managing director (MD).

Under current practice, general managers are appraised by executive directors, who are assessed by the MD. But there is no formal appraisal process for the MD.

At the end of every financial year, the MD signs a memorandum of understanding (MoU) with the government. After a full year, MoU points are scored, and based on the scores, the bonuses of the MD are released by the board. The government now proposes that the board can appraise the MD directly.

However, experts say it won't be easy to appraise general managers because the board won't be knowledgeable enough to know all the functioning of the banks that they handle.

“It will be the EDs and MDs who would end up appraising the GMs,” said a former chairman and MD of a PSB. The Centre also gave the freedom to banks to appoint chief general managers, if required. The concept of CGM is present in State Bank of India. As the government creates four more large PSBs, the need for CGMs would arise.

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“These are incremental changes, not radical,” said Ashvin Parekh, head of Ashvin Parekh Advisory Services, a management consultancy firm. “Unless the mandate of appointing the top management is given to an independent institution, free of government influence, the appointees would always be beholden to the government and shy away from taking independent decisions,” said Parekh. “This shows that the government is still hesitant in giving up total control to the Banks Board Bureau (BBB),” Parekh said.

Importantly, the finance minister said banks could recruit chief risk officers (CROs) from market, “at market-linked compensation to attract best available talent”.

This, according to experts, could be a game changer if the officer is also given adequate powers to take calls on loan decisions too. The Risk Management Committee will be given the mandate to fix accountability for compliance of the Risk Appetite Framework.

To enable succession planning, bank boards can decide the system of ‘Individual Development Plans’ for all senior executive positions. To ensure sufficient tenure, the boards have now been given flexibility to prescribe residual service of two years for the appointment of GM and above.

Large PSBs can now enhance sitting fees of non-official directors (NODs), who will also be evaluated annually on peer-review basis. NODs will perform a similar function as independent directors in the board.

The boards will be encouraged to give longer term to directors on the management committee of board (MCB) to enable them to contribute effectively. And this MCB will have loan-sanction thresholds doubled, “to enable focussed attention to higher value loan proposals”.

For better board committee functioning, the government said boards could reduce the number of committees.

“These measures would considerably strengthen the operational framework for PSBs and enable them to meet the requirements of a large and growing economy,” said Sandip Somany, president, Federation of Indian Chambers of Commerce and Industries (FICCI).

New Rules

- Bank board to appraise performance of general manager and above, including managing director
- Chief general managers can be appointed for large PSBs
- Chief risk officer can be hired at market compensation package
- Longer term for directors on Management Committee of Board (MCB)
- MCB loan-sanction thresholds enhanced by up to 100%
- There can be four EDs in large banks, from the current two