Changing Dimensions of Corporate Governance in Public Sector Banks in India

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With the faster pace of corporatization, the volumes of market capitalization have globally increased at exponential pace. More and more investors across the globe explore equity markets for investments and profit earning opportunities. Innovative methods of accessing funds and efforts of leveraging capital have accentuated the sensitivity of risk. The corporates are susceptible to the pitfalls of over leveraging their capital resources resulting in imbalanced exposure, sometimes even to the unknown downside risks. Thus the influx of funds into the stock market from various sources has heightened the onus of regulators to protect investor interest thereby making the task much more challenging. Ensuring that the end use of investor funds are prudent and are in conformity with the global best practices is a tough task posing a sustained pressure on regulators to innovate better ways and means.

In this context, corporate governance has come to occupy a prominent position in modulating the conduct of the companies who raise funds through equity market. Public listed companies, financial institutions, banks and other corporate accessing funds from public have to be made to follow rigid discipline in its governance, more so in the application of funds to protect the long term interests of the organizations.

Coming to the specific aspects of bank dominated Indian financial system; effective financial intermediation is the life line of sustainable development of the economy. Though we have multiple segments of banks such as Public Sector Banks (PSBs), New Private Sector Banks (NPSBs), Old Private Sector Banks (OPSBs), Cooperative Banks, Regional Rural Banks (RRBs) and Foreign Banks, about 70 per cent of the banking business is held by PSBs comprising of SBI, its subsidiaries and the nationalized banks.

Banks access capital market to shore up their capital adequacy needs in terms of the norms set by the Bank for International Settlement (BIS).The banking intermediaries engaged in mobilizing deposits and lending them to the needy sector for sustained growth of agriculture, industry and commerce have a critical role to play in the economy. Therefore the functions of banks are sensitive calling for utmost prudence in governance. This backdrop firms up the significance of corporate governance in banks for sustained growth of financial system.

Genesis of the Concept of Corporate Governance:

The seeds of modern Corporate Governance were probably sown by the Watergate scandal in the United States. As a result of subsequent investigations, US regulatory and legislative bodies were able to highlight control failures that had allowed several major corporations to make illegal political contributions. This led to the development of the Foreign and Corrupt Practices Act of 1977 in USA that contained specific provisions regarding the establishment, maintenance and review of systems of internal control.

This was followed in 1979 by the Securities and Exchange Commission of USA's proposals for mandatory reporting on internal financial controls. In 1985, following a series of high profile business failures in the USA, the most notable one of which being the

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Savings and Loan collapse, the Treadway Commission was formed. Its primary role was to identify the main causes of misrepresentation in financial reports and to recommend ways of reducing incidence thereof. The Treadway report published in 1987 highlighted the need for a proper control environment, independent audit committees and an objective Internal Audit function. It called for published reports on the effectiveness of internal control. It also requested the sponsoring organizations to develop an integrated set of internal control criteria to enable companies to improve their systemic measures.

Accordingly COSO (Committee of Sponsoring Organizations) was born. The report produced by it in 1992 stipulated a control framework which has been endorsed and refined in the four subsequent UK reports: Cadbury, Rutteman, Hampel and Turnbull. While developments in the United States stimulated debate in the UK, a spate of scandals and collapses in that country in the late 1980s and early 1990's led shareholders and banks to worry about their investments. These also led the Government in UK to recognize that the then existing legislation and self-regulation were not working.

Companies such as Polly Peck, British & Commonwealth, BCCI, and Robert Maxwell's Mirror Group News International in UK were all victims of the boom-to-bust decade of the 1980s. Several companies, which saw explosive growth in earnings, ended the decade in a memorably disastrous manner. Such spectacular corporate failures arose primarily out of poorly managed business practices.

It was in an attempt to prevent the recurrence of such business failures that the Cadbury Committee, under the chairmanship of Sir Adrian Cadbury, was set up by the London Stock Exchange in May 1991. The committee, consisting of representatives drawn from the top levels of British industry, was given the task of drafting a code of practices to assist corporations in U.K. in defining and applying internal controls to limit their exposure to financial loss, from whatever cause.

Crystallization of the Concept of Corporate Governance:

With this background of genesis of Corporate Governance practices across the globe, it may be pertinent to recall the earliest definition of Corporate Governance by the Economist and Noble laureate Milton Friedman. According to him, *Corporate Governance is to conduct the business in accordance with owner or shareholders' desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs.*

Some more established definitions state that *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders and also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined"*

According to Shri Kumar Mangalam Birla "fundamental objective of corporate governance is the 'enhancement of the long-term shareholder value while at the same time protecting the interests of other stakeholders."

The spirit of these definitions clearly bring to fore the significant role of Corporate Governance. If the Corporate Governance is implemented in totality in banks, it will have impact on the overall health of the banking system reflected in the form of rise in business levels, profitability ratios, dividends paid, market capitalization, earnings per share, net worth, and book value of the shares and so on. The expression of interest of foreign banks to expand operations in India, their strategic move to join collaborations, joint ventures, tie ups, correspondent relations etc with the Indian financial entities are also a reflection of soundness of stable governance policies.

Adoption of Corporate Governance practices in banks has begun to reflect changes in the style of governance and their growth pattern. Before we embark on further study of its role in banking system, a quick look at the

pace of growth of banking sector will help us crystallize our views. The following section will provide a snap shot of how the banks have broadly done in the last 5 years. The section will also attempt quantification of performance of banks in the capital market which has a better correlation with the policy of corporate governance measures.

Growth of Banking System in India

Banking system is the strategic building block of the economy. The Indian banking system has made commendable progress in extending its geographical spread and functional reach. The spread of the banking system has been a major factor in promoting financial intermediation in the economy. The divergent growth of the banking system has also been responsible for boosting domestic savings and in expanding credit reach. Banks are basically engaged in mobilizing resources for the purpose of lending to foster growth and development. The magnitude of growth of banking system can be indicated as follows:

Table I
Growth of Business in Indian Banking Industry
(Growth rates in percentage)

No.	Business Parameters	Average growth 1991-2000	Average growth 2001-2007	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Aggregate deposits	17.2	16.9	13.4	17.5	12.8	18.1	23.7
2.	Bank Credit	15.9	21.4	16.1	15.3	27.0	30.8	28.0
3.	Non food Credit	15.4	21.9	18.6	18.4	27.5	31.8	28.4
4.	Investments in Govt. Securities	20.9	15.9	27.3	25.1	7.9	2.7	10.6

(Source: Annual Report 2006-07; Reserve Bank of India.)

The aggregate growth rate of deposits increased from 13.4 per cent in 2002 – 03 to 23.7 per cent in 2006-07 while that of credit increased from 21.4 per cent to 28 per cent during the period. The growth rate of investments however tapered down from 27.3 per cent to 10.6 per cent due to increased emphasis on credit expansion and lowered SLR. Further trends indicate that the growth of banks continued with deposits growing by 24.2 per cent in 2007 – 08 while the credit growth recorded 22.8 per cent.

The credit deposit (CD) ratio reached 74.2 per cent. The number of bank branches has increased from 68549 in March 2005 to 74,326 in March 2008, while the number of banks has reached 173. Such deep rooted presence reflects the penetration level of banks. The deposits to the GDP ratio reached 65 per cent while the credit to GDP ratio crossed 58 per cent in March 2008 marking a substantial rise. Thus by mere business numbers, the banks have been expanding fast in terms of business and density of presence contributing to the sustainable growth of the economy.

Despite the slowdown due to the cascading impact of global financial crisis, banks have posted good business during 2008-09. The deposits have so far grown by 10 per cent up to Nov 7, 2008 as against 11.5 per cent in the corresponding period last year. The advances could post a higher 11.6 per cent growth as against 6.8 per cent last year. The performance indicators clearly show that growth trend of banking industry is robust even under the shadow of ongoing financial crisis. The continuing growth and sustained policies in administrating credit only affirms that the Corporate Governance practices are well grounded and poised to lend further credence to the systems. The basic introduction and review of performance opens up vistas to discuss the granular details of how the Corporate Governance system has evolved and got integrated into the banking system and its enhanced role in the future governance.

Broad Canvass of Corporate Governance - Guidelines for Banks:

A banking corporation is a congregation of various stakeholders, namely, customers, employees, investors, vendor partners, government and society. A bank should be fair and transparent to its customers and stakeholders in all its transactions. This has become imperative in today's globalized business world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community. Unless a corporation embraces and demonstrates ethical conduct, it will not be able to succeed.

Corporate Governance is all about ethical conduct of business. Ethics is concerned with the code of values and principles that enables a person to choose between right and wrong, and therefore, select from alternative courses of action. Further, ethical dilemmas arise from conflicting interests of the parties involved. In this regard, managers make decisions based on a set of principles influenced by the values, context and culture of the organization. Ethical leadership is good for business as the organization is seen to conduct its business in line with the expectations of all stakeholders.

Corporate governance is beyond the realm of law. It stems from the culture and mindset of management, and cannot be regulated by legislation alone. Corporate Governance deals with conducting the affairs of a company such that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about openness, integrity and accountability. What legislation can and should do is to lay down a common framework – the "form" to ensure standards. The "substance" will ultimately determine the credibility and integrity of the process. Substance is inexorably linked to the mindset and ethical standards of management.

Corporations need to recognize that their growth requires the cooperation of all the stakeholders; and such cooperation is enhanced by the corporation adhering to the best corporate governance practices. In this regard, the management needs to act as trustees of the shareholders at large and prevent asymmetry of benefits between various sections of bank customers and shareholders, especially between the owner-managers and the rest of the shareholders.

Corporate governance is a key element in improving the economic efficiency of a bank. Good corporate governance also helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders. This, in turn, helps assure that corporations operate for the benefit of society as a whole. While large profits can be made taking advantage of the asymmetry between stakeholders in the short run, balancing the interests of all stakeholders alone will ensure survival and growth in the long run. This includes, for instance, taking into account societal concerns about their welfare and the environment as a part of corporate social responsibility.

Debut of Corporate Governance in Indian Banks:

As a prelude to institutionalize Corporate Governance in banks, an Advisory Group on Corporate Governance was formed under the chairmanship of Dr. R.H. Patil. Following its recommendations in March 2001 another Consultative Group was constituted in November 2001 under the Chairmanship of Dr. A.S. Ganguly: basically, with a view to strengthen the internal supervisory role of the Boards in banks in India. This move was further reinforced by certain observations of the Advisory Group on Banking Supervision under the chairmanship, Shri M.S. Verma which submitted its report in January 2003. Keeping all these recommendations in view and the cross-country experience, the Reserve Bank initiated several measures to strengthen the corporate governance in the Indian banking sector.

Indian banking system consists of Public/Private sector banks having a basic difference between them as far as the Reserve Bank's role in governance matters relevant to banking is concerned. The current regulatory framework ensures, by and large, uniform treatment of private and PSBs in so far as prudential aspects are concerned. However, some of the governance aspects of PSBs, though they have a bearing on prudential aspects, are exempt from applicability of the relevant provisions of the Banking Regulation Act, as they are governed by the respective legislations under which various PSBs were set up. In brief, therefore, the approach of RBI has been to ensure, to the extent possible, uniform treatment of the PSBs and the private sector banks in regard to prudential regulations.

In regard to governance aspects of banking, the Reserve Bank prescribed its policy framework for the private sector banks. It also suggested to the Government the same framework for adoption, as appropriate, consistent with the legal and policy imperatives in PSBs as well. Hence the endeavor is to maintain uniformity in policy prescriptions to the best possible extent for all types of banks.

Setting 'Fit and Proper' Criteria for Directors of Banks:

Taking cue from the recommendations of the Ganguly Committee Report, the concept of 'fit and proper' criteria for directors of banks was formally enunciated in November 2003. It included the process of collecting information, exercising due diligence and constitution of a Nomination Committee of the Board to scrutinize the declarations made by the bank directors. Accordingly, all the banks in the private sector have carried out, through their nomination committees, the exercise of due diligence in respect of the directors on their Boards. In some cases, where the track record of the directors was not considered satisfactory, the directors vacated their positions. In regard to some others, there is an on-going process to ensure 'fit and proper' status of the directors.

In this regard, it may be useful to distinguish the issue of the composition of the Board from the 'fit and proper' status of individual non-executive directors and chief executives. The first relates to collective expertise on the Board available to meet the competitive challenges before the bank to ensure commercial activity while maintaining soundness. The existing legal provisions in regard to banks stipulate specific areas of background that a director should be drawn from. The Directors should be from professional areas such as accountancy, banking, economics, finance, agriculture, etc. But it does not specify the extent or degree of professionalism or expertise required in regard to that area. Hence, it is left to the good faith of the shareholders to elect directors from the various specified areas with qualifications and experience that is appropriate to the bank. In regard to PSBs, such good faith is expected when directors are nominated by the Government.

However, when the issue of 'fit and proper' status of non-executive directors comes up, the norms only seek to ensure that the candidate should not have come to the adverse notice of the law and regulations or any professional body so that there is no objection from RBI. In the case of non-executive directors not satisfying the 'fit and proper' criteria, there is a prescribed due process to be followed by the RBI to disqualify such directors, which includes opportunities to be heard. The position in regard to the CEOs of the private sector banks is on a different footing where RBI exercises its judgment on the suitability of the candidates proposed; in as much as the approval of the RBI is required for the appointment. These provisions are broadly consistent with global best practices though there is scope for enhancing effective implementation.

Keeping in view the importance of Corporate Governance even in PSBs, the Government of India at the behest of RBI carried out amendments to the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970/1980 and the State Bank of India (Subsidiary Banks) Act 1959 to include new sections providing for applicability of 'Fit and Proper' criteria for elected directors on the Boards of PSBs. Accordingly guidelines were issued in Nov 2007 to prescribe "Fit and Proper"

criteria to be fulfilled by the persons being elected as directors on the Boards of Nationalised banks under the provisions of Section 9(3)(i) of Banking Companies (Acquisition and Transfer of Undertakings) Act 1970/80.

Continuing surveillance of "Fit and Proper" criteria is maintained on continuous basis. Under these provisions, Nationalised banks are required to form a committee consisting of minimum three directors (all independent and non-executive directors) from amongst the Board of Directors to examine and certify that none of these directors disqualify for being "Fit and proper". Moreover, in some banks directors are also exposed to high level of training to fine tune their expert domains to enable them to more effectively contribute to the governance of banks. The Corporate Governance systems have evolved over a period of time to cover all types of banks to develop a sound and strong financial system. After the Corporate Governance System is established in banks, there could be conspicuous change in the quality of governance.

Impact of Corporate Governance Norms in Banks:

The RBI move to strengthen Corporate Governance led to seminal changes in the bank administration. The sustained profitability, lower level of non-performing assets, improved return on assets is laud indicators of the sustaining policy of operating sound banking system. Moreover, the movement of share prices in the market, increased appetite of investors to look at banks for investment in bank centric equity market further speaks of broad market opinion of bank's performance and reflection of market confidence. The corporate governance framework in banks has been strengthened through regulation, supervision and by maintaining constant interaction with the management. They cover identification of responsibilities of the Boards of banks, disclosure and transparency in published accounts, and shareholder and stakeholder rights and controls. The rating on management (M) which has been introduced as part of the CAMELS (Capita, Asset Quality, Management, Earnings, Liabilities and Systems) supervisory process takes into account the working of the board and its committees including the Audit committee, effectiveness of the management in ensuring regulatory compliance and adequacy of control exercised by the head/controlling offices. This model has been further modified to include risk based supervision. The new evolution is intended to manage influx of a range of financial risks entering the market with their nuances.

Moreover, the audit function is an important element of the corporate governance process and the independence of this function is crucial to good corporate governance. Audit Committee of the Boards, constituted at the instance of RBI; performs the role of overseeing concerns about internal controls and recommendations for their improvement. In order to ensure both professionalism and independence of these committees, Chartered Accountant directors on the boards of banks are mandatory members and the Chairman or Chief Executive Officer is not to be part of the Audit Committee. Foreign banks are not insisted upon to have local audit committee for their Indian branches. Their branches can have a compliance function that reports to their head office on the branches' compliance with RBI inspection findings and features arising out of internal inspections and statutory audit. RBI has Nominee directors on the boards of all PSBs and some of the old private sector banks. Further, the Government also nominates directors on the boards of all PSBs. Of late, RBI has been withdrawing its nominees from the boards of well-managed old private banks.

In order to improve the effectiveness of the non-official directors and bring in effective corporate governance at the board level in banks, guidelines have been issued focusing the attention of directors on certain areas such as (i) the prescribed calendar of reports / returns to be placed before the Board / Managing Committee of the bank (iv) corrective action required to be taken by the bank on issues of supervisory concern (v) adherence to the deadlines for complying with various action points committed under Monitor able Action Plan during discussions in Annual Financial Inspection findings as

well as achievement of targets agreed during Memorandum of Understanding (MOU) discussions with RBI. Further, the guidelines also require the directors to keep watch on matters which come to the board of the banks as also what should have come to the board and to inform the Department of Banking Supervision on matters of supervisory concern.

Quantification of the Impact of Corporate Governance Policies in Banks

Post reform period led to many banks accessing capital market to shore up their capital adequacy ratio, an essential prescription of Basel-I then and Basel –II now. Subscription of bank's equity is a function of public confidence which stems from governance policies. The Red Herring Prospectus lodged by banks as required by the capital market regulator, the Securities and Exchange Board of India (SEBI) reflects not only the numerical performance of banks as enunciated in Section-I of this paper but is also an indicator of present and future governance policies pursued by banks.

The movement of stock prices is a further reflection of demand and supply of bank shares in the stock market. The entry of new Private Sector Banks and PSBs accessing capital market opened up new opportunities to the investors. It was heartening to note that in the next few years, the bank shares had picked up demand and popularity.

The Moody's Bank Financial Strength Index (2002) placed India at 27.5 per cent which was much better than 16.7 per cent of Korea, 15.8 per cent of Thailand and 12.5 per cent of Japan. As the market capitalization of banks increased, Bombay Stock Exchange (BSE) began to track the stock market performance of banking sector separately by introducing an index, Bankex taking the base date of 1st Jan, 2002 with a debut of 1000 points. The major 12 bank shares were taken into Bankex index. It can be observed that despite the wild fluctuations of capital market due to the recent global financial crisis, the Bankex moved from 1000 to 4625.23 (on Nov 26, 2008). Such steep rise in Bankex indicates the rising confidence of the investors on the Indian banking system. The spurt in the capital market index is a manifestation of investor opinion on the performance, potential and standard of governance of banks. Though there may not be direct correlation between market movement of bank shares and corporate governance policies, the overall long run market opinion precipitates on this basis. Such practices form the fundamental strength of the banks and their ethical commitments. As the risk perception changes, volume of business goes up, new line of activities spur, competition heightens further, the Corporate governance practices need to be fine tuned to meet the emerging challenges.

Road Ahead

Corporate Governance is a mission intended to create strong fundamentals for the banks. With changing dimensions of corporate governance practices banks need to transform into much more dynamic and forceful entities setting a broad vision for the future. It will be more significant in the wake of the recent global financial turmoil which had taken heavy toll of several financial conglomerates. Many investment banks, commercial banks and financial institutions across the globe had to file bankruptcy petitions and vanished from the market. The reasons are definitely a focus on achieving short term business goals often ignoring the long term goals of the organization. The philosophy of Corporate Governance spells out the long term sustainability with strong fundamentals.

The ownership and governance of banks assume special significance as they accept and deploy large amount of uncollateralized public funds and leverage them through credit creation. Banks also participate in payment mechanism. However the two major concerns arose in the Indian context regarding Corporate Governance in banks. These were concentration of ownership and the quality of management that controlled the bank. Regulation of private banks was crucial in view of the fact that the owner shareholders of the banks had only a minor stake and considering the leveraging

capacity of banks, it puts them in control of a very large volume of public funds of which their own stake is miniscule.

In terms of recommendations of Narasimham committee – I (1991) and Narasimham Committee –II (1997), the government may dilute its holdings to bring them below the current threshold limit of 51 per cent on way to move towards 33 percent in PSBs. Even then efforts to institute good governance practices would remain important. Moreover, the government may have to redefines its role de novo in running the banks. Even now the micro management of Banks remains with the bank's Boards. The changes proposed in the composition of the boards as per legislation under contemplation would result in government directly appointing 9 out of the 15 directors including the 4 whole time directors.

Moreover, the restrictions on the voting rights of shareholders will limit the basic principle of equal rights to all the shareholders. The rights of private shareholders' of PSBs are skewed considerably, since their approval is not required for paying dividend or for adopting annual accounts. On the other hand the subsidiaries of the SBI enjoy very limited board autonomy as they have to get clearance on most of the important matters from the parent even before putting them up to their boards.

Further, as things stand today, there is no equality among the various board members of the PSBs. Nominees of RBI and Government enjoys a better command and is treated to be superior to other directors. Another major problem affecting banks has been the representation given to the various interest groups on the boards of the banks. The main objective behind these representations was to give voice to various sections of the society at the board level of the banks. Hence, a major reform is needed in the area of constitution of the boards of the banks. The Chairmen, Executive Directors and non-executive directors on the boards of the PSBs (including Chairman, Managing Director, Deputy Managing Director of the SBI and its subsidiaries) need to be appointed on the advice of an expert body set up on the lines of the UPSC, with similar status and independence. Such a search committee is generally set up jointly by RBI and the Ministry of Finance.

All the objectives that the banks are supposed to achieve should become an integral part of the corporate mission statements of these institutions. Banks pursue these goals relentlessly to gain new heights. Although RBI maintains a tight vigil and inspects these entities thoroughly at regular time intervals, the quality of corporate level governance mechanism does not appear to be satisfactory. In its role as the regulator, RBI has representation on the bank boards, given the fact that it has the role to protect the interests in line with its regulatory functions. This applies even in the case of SBI where RBI is the major shareholder. Further, any policy measures to protect banks that are less careful in their lending policies need appropriate intervention to protect the banks in such a way that they do not encourage profligate lending by banks.

Current regulatory provisions do not permit a bank to lend money to a company if any of its board members is also a director on the board of that company. The negative impact of this rule has been that the banks are not able to get good professionals for their boards. The banks are required to induct independent directors in their board to promote professional functions.

The current rule may, however, be continued only in respect of directors of companies who are their promoters and have a stake in their companies beyond being merely a director. In the interest of good governance, it may therefore be desirable that government directors should not participate in the discussion on such matters and also abstain from voting.

The future course of corporate governance may provide suggestive agenda to PSBs to strengthen them to eventually imbibe global best practices, needed more in the context of integration of Indian banking system with the rest of the world. Corporate governance in PSBs is more challenging as they are governed by the

government on one side, RBI and SEBI on the other side. With banks now forging into other wealth management areas covering insurance and sale of third party products, many other regulators may also enter their domain. Balancing the needs and prescriptions of different regulators calls for enhanced prudence and stable ethical policies so that stake holder's interest is protected. The directors will have to play a restrained role to avert any over governance.

The top management and board of directors constantly work towards improving the quality of corporate governance in PSBs. One of the major factors that impinge directly on the quality of corporate governance is the government ownership. It is desirable that all the banks are brought under a single Act so that the corporate governance regimes do not have to be different just because the entities are covered under multiple Acts of the Parliament or that their ownership is in the private or public sector. The ownership of banks and accountability to run them should vest preferably with single agency. The future challenges will unfold a range of transformation in the system of corporate governance so that the quality of performance of banks and public confidence is maintained high.

Thoughts on Corporate Governance in Indian Banks:

It is a daunting challenge to make Corporate Governance effective in a highly complex business oriented environment of banks and financial sector. More so, when the driving force of commercial banks is to grab the arbitrage opportunity, trading profits with unstinted focus on profitability. The levers of systemic control have to be not only progressively tightened but they are also to be scrutinized from the point of deliverables. Moreover the recent global financial crisis leading to the demise of several reputed global investment banks exposes the fissures in the effectiveness of corporate governance model.

The implementation of corporate governance norms in Indian banks have been phenomenal after the bank reforms were put in place. With the initial framework of Ganguly committee, there has been a consistent focus on 'fit and proper' standards. The PSBs have even began to rate their corporate governance standards from rating agencies. Banks have been working on sustainability of corporate governance standards and have begun to realize the importance of corporate social responsibility which is an integral part of it. The multiplicity of regulators, issues in the appointment of rightly qualified Board members and conflict of interest between long term and short term objectives always pose bigger challenges.

The recent adverse developments arising out of US sub-prime mortgage market fiasco had shattered the confidence of investors in the governance of some of the global Banks/FIs. Investors do search for better yield but it needs to be worked out with prudent investment policies. The headway success of structured credit that offered high yields with high credit ratings created a huge demand for quick earning assets. It enabled banks to move from traditional "lend and hold" model towards an "originate and distribute" model. Such shift in the model led to rise in supply of credit and allowed risk to be more widely dispersed across the system as a whole. It involved a long chain of participants from the original lenders to end investors. Investors at the end of the chain bore the final risk, had less information about the underlying quality of loans than those at the start and become dependent on rating agencies and their models.

The corporate governance issues of synchronizing perpetual organizational growth objectives with current aspirations needs to be widely discussed in the international forum of the conference. This contextual paper should be able to provide not only an insight into the progress attained so far but will be able to set an agenda and a thinking tool to the policy makers.

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