

# Banks Board Bureau

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April 10, 2017

## Activities undertaken/ Recommendations made: October 2016 to March 2017

The Bureau which came into being on April 01, 2016 has just completed the first year of its functioning. Immediately on commencement, the Bureau gave priority to ensure that the new appointments of whole-time directors in public sector banks (PSBs) are completed before the existing incumbent superannuates. Accordingly, the first half of the financial year gone by was focused primarily on making recommendations on appointment of whole time directors in PSBs.

### A. Recommendations

2. Subsequently, during the period October 2016 to March 2017, the Bureau has sent its recommendations to the government on:

- i. The roles, responsibilities, remuneration and service conditions of Non-Executive Chairmen as well as the remuneration of Non-Executive Directors in PSBs to ensure that the level playing field with private sector banks is established so as to attract high quality personages.
- ii. A **Governance, Reward and Accountability Framework (GRAF)** within PSBs incorporating:
  - a. a **governance framework** that integrates elements of organisational structure and processes to ensure high standards of corporate governance that has already been enunciated in:
    - i. the Companies Act, 2013,
    - ii. Banking Regulation Act, 1949,
    - iii. Securities and Exchange Board of India (listing obligations and disclosure requirements) regulations, 2015, and
    - iv. The latest global benchmarking on governance practices provided by Basel Committee on Banking Supervisions guidelines on corporate governance principles for banks released in July 2015.

- b. a **code of conduct and ethics** which could be enforced across all PSBs to ensure the right behaviour and conduct;
- c. **compensation reforms** so that best practices can be introduced in PSBs on the lines already prevalent in Central Public Sector Enterprises;
- d. a **relative performance rating** system to assess the performance of PSBs, its directors and employees; and
- e. a performance evaluation system based on which decision making for the **extension/termination of a whole-time director** can be undertaken objectively.

## **B. Appointments of whole time directors**

3. Earlier during the year gone by, the Department of Financial Services, Ministry of Finance, Government of India was requested to ensure that the pool of eligible candidates made available to the Bureau for interactions should have all the necessary clearances *apriori* so as to ensure that the recommendations of the Bureau are immediately submitted to the Appointments Committee of the Cabinet and the time lag between recommendations and announcement of appointments is minimal. Accordingly, front loading the process, the Bureau held interactions with Executive Directors of PSBs on March 30, 2017 and recommended five candidates for the post of MD&CEO in PSBs for the vacancies coming up in 2017-18.

## **C. Engagements with PSBs**

4. The recurring mandates to the Bureau is in the form of appointments and engagements with PSBs. With reference to the latter, the mandate given to the Bureau is to help PSBs in terms of developing business strategies. In fulfilling this mandate, the Bureau does not envisage formally prescribing specific strategy for each PSB as the Bureau is mindful of the need to have fully empowered boards which should drive the overall strategy of the bank within its risk capacity and also act as custodians who would reconcile the diverse interests of various stakeholders.

5. Nevertheless, the Bureau has had meetings, and will continue meeting, with the boards of PSBs, to familiarise with the governance structure of PSBs, to assess the

participation by the board members and the transformation agenda worked out by each PSB to strengthen their position. These interactions with the boards are around the following five themes:

- a. Board composition and vacancies;
- b. Human Resources Development;
- c. Investment in technology and business processes to reduce costs and enhance efficiency;
- d. Stressed assets management; and
- e. Capital assesment.

6. By undertaking such an exercise the Bureau will be in a position to make an assessment of (a) the relative strengths and weaknesses of a PSB; (b) The diversity of competencies available at the board level in a PSB to drive their respective long term strategy, and (c) the ability of the board of each PSB to offer sceptical yet professionally constructive challenge to the management to ensure better outcomes.

7. Such interactions will also offer the scope to the respective boards of the PSBs to reflect on various matter and tap into the expertise available at the Bureau while developing their bank specific strategies.

#### **D. Going forward**

8. Apart from fulfilling its mandate regarding appointments, later during the course of this financial year, the Bureau will be advising the Government on evolving suitable training and development programmes for management personnel in PSBs and will help banks to develop a robust leadership succession plan for critical positions that would arise in future.