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A Study of Corporate Governance in Public Sector Banks

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Abstract

Presently, many changes have been occurring in banking environment hence there is a need to have strong corporate governance particularly institution of public sector banks. Present study targeted to investigate involvement of corporate governance and wellbeing of public sector banks. Though, the function of an agency manager act by RBI between government and Bank. The variables selected for the study are shareholding pattern, return on assets, gross non-performing assets to total advance, capital adequacy ratio and return on equity. If there is any change needed in these selected variables will call for a corrective action to have significant corporate governance in banks. Therefore,trend and regression analysis are performed on it and results revealed that the government need to take strict proactive action approach in direction to boost the corporate governance contribution which subsequently impact banks overall health.

I. Introduction

PUBLIC SECTOR BANKS are dominated in Indian banking system as majority of their stakes (51%to 90%) lies with the government. The shareholding ratio pattern proportionately varies in public and private sector bank, although shares are listed in stock exchanges. In the past, majority of public sector banks were profitable and with passageof time many public sector banks are now facing zero or lesser profitability as compared to previous data. This may be due to increase in competition, globalization and challenges faced by Public Sector banks. These challenges include capital adequacy issue and bad assets quality. From the past three-four years, there is a rise in NPA of public sector banks to 4.55 lakh crore. During 2018, Indian banking system has worst bad loan ratio 9.3% among

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Externally RBI a governing authority governs banks through capital adequacy ratio, shareholding pattern, and return on equity. While bank manages their internal assets to get efficient returns in exchange. In this case banks are using their resources effectively to extract good returns.Somewhere the process of utilization of assets is faulty, causes no returns. The increasing trend of gross non performing assets clearly expresses bad credit system of extension of loans. Thereby, it has been concluded that banks are internally weak and fragile. Corporate governance involvement is different in different financial institution and efficient corporate governance protects shareholders and stakeholders of financial institution.

In order to tackle present situation of increasing non-performing assets year by year in public sector, which is evident in descriptive statistics of this study. Primarily, recovery of bad debts and recovery of bad assets. Secondly, direct capitalization of banks by infusing money in public sector banks, amount of 2.11 lakh in recent past to uplift equity base of public sector bank reflected on increased ROE. Finally, moving for consolidation of banks for the sake of survival of banks and saving the trust of depositors.

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