

**PUBLIC SECTOR BANKS –
Role of Board level Committees**

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What are Listed Public Sector Banks (LPSBs)?

- LPSBs were companies
 - which have been nationalized by Government of India &
 - constituted as corresponding new Banks under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/80 (the Act) [Banking Companies Act].

What are Listed Public Sector Bank's (LPSBs)?

- LPSBs are also governed by
 - The Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970/80 (the Scheme);
 - The Banking Regulation Act, 1949;
 - Shares & Meetings Regulations &
 - Circulars issued by RBI and GOI from time to time.

What are Listed Public Sector Bank's (LPSBs)?

- As the shares of LPSBs are also listed with the Stock Exchanges,
 - applicable regulations of SEBI &
 - Listing Agreement entered into with the Stock Exchanges are also applicable;
- Central Government of India (CG) & Reserve Bank of India (RBI) are the primary regulators.

How are LPSBs governed?

- LPSBs are governed by the Board of Directors with a Chairman and Managing Director and one / two / three Executive Directors (depending on the business of the Bank).
- The Constitution of the Board is as stipulated under Section 9(3) of the Banking Companies Act.

Role of the BOARD

- The Board has 3 primary roles
 - To establish policies,
 - To make significant and strategic decisions,
&
 - To oversee the pursuit of objectives
- Constituting Committees to perform different functions of the Board is an accepted and effective mechanism and strengthens the governance process.

Constitution of the Board of Directors

- The Chairman and Managing Director and Executive Director(s) are the whole-time Directors; who manage the day to day affairs of LPSBs:-
- The Board also comprises of Non Executive Directors
 1. Nominee of GOI – (Official of the Central Government);
 2. Nominee of RBI – (Official of Reserve Bank of India);
 3. Workmen Director - Representing the interest of Workmen of the Bank;

Constitution of the Board of Directors

4. Non Workmen Director - Representing the interest of Officers of the Bank;
5. A Chartered Accountant with min 15 years experience - nominated by GOI;
6. Three to Five Directors - Nominated by GOI – representing various areas of interest such as Finance, Economics, Banking, Artisan, Agriculture etc., or any other area considered useful to the Bank by RBI.
7. One to Three Directors elected by Shareholders other than CG based on dilution of GOI's Shareholding in the Bank (<16% / 16% - 32% / > 32%)

Governance Process

- LPSBs like any corporate entity are also governed by the Board and its Committees (Stipulated and Voluntary)
- Stipulated Committees are Committees constituted in compliance with Banking Companies Act, Circulars issued by RBI and GOI from time to time; Listing Agreement entered into with the Stock Exchanges.
- Voluntary Committees are Committees constituted by the Boards of the LPSBs based on requirements of the Bank for better governance and implementation.

COMMITTEES OF THE BOARD

- Various Committees are constituted in LPSBs depending upon the rules and regulations framed by GOI / RBI / SEBI / Listing Agreement applicable to a Bank for the purpose of better GOVERNANCE.
- The constitution and terms of reference of these Committees are contained in the directives issued by the regulators
- The Board is the policy formulating body of LPSBs and is focused on Policy Matters;

COMMITTEES OF THE BOARD

- Committees focus on specific areas for implementation and follow up of the decisions of the Board.
- The constitution; tenure of the Committee and terms of reference of Stipulated Committees are as mandated in the applicable Laws;
- The constitution; tenure of the Committee and terms of reference of Voluntary Committees are as decided by the Board of Directors of LPSBs.

COMMITTEES OF THE BOARD

- In general, the Committees of the Board focus on specific areas allowing the Board to concentrate on broader and strategic “big picture” issues and directions.
- In some cases Committees are established to undertake major projects like organisational transformation, joint venture formation, partner evaluation, due diligence etc.,
- The work of voluntary Committees should be strongly linked to the strategic plan of the Organisation.

COMMITTEES OF THE BOARD

- Some of the Stipulated Committees of the Board are as under
 1. Management Committee – Clause 13 of the Scheme;
 2. Audit Committee – directive of RBI;
 3. Risk Management Committee – rules framed by RBI;
 4. Nomination Committee – RBI notifications;
 5. Committee of High Value Frauds – RBI circular;
 6. IT Strategy Committee – RBI recommendation;
 7. Remuneration Committee – GOI notification;

COMMITTEES OF THE BOARD

8. Credit Approval Committee– Committee headed by CMD, ED, General Managers, Zonal Managers, Regional Managers is Constituted as per GOI notification;
9. Customer Service Committee – Mandatory
10. Committee of Directors – Mandatory
11. Human Resources Committee - Mandatory
12. Shareholders / Investors Grievance Committee – Clause 49 of the Listing Agreement;
13. Share Transfer Committee – Clause 49 of the Listing Agreement ;

TERMS OF REFERENCE (TOR) FOR Some of the COMMITTEES

No	Name of the Committee	TOR
1	Management Committee	Sanction of high value credit proposals, write-off/compromise proposals, capital and revenue expenditure, premises, donations, investments etc.
2	Audit Committee	<p>Most important Committee of the Board – All policies which have bearing on financial and accounting aspects have be necessarily cleared by the Committee before it is placed before the Board for approval.</p> <p>Assess and review scope of financial reporting, Internal controls, Audit Reports of RBI / Statutory Auditors, Implementation and Review of Policies</p> <p>More into Systems and Control aspects.</p>

TERMS OF REFERENCE (TOR) FOR Some of the COMMITTEES

No	Name of the Committee	TOR
3	Risk Management Committee	Evaluation of risk assumed by the Bank in its business to ensure stability and efficiency in operations and look into the market credit and operational risks and Risk Policies.
4	Nomination Committee	Assess the fulfillment of all criteria fixed for assuming the position of a Director.
5	Committee for High Value Frauds	Reviewing frauds including reasons and solutions above Rs.1 crore
6	IT Strategy Committee	IT Policy; Review Business Continuity Evaluation of IT Strategies

TERMS OF REFERENCE (TOR) FOR Some of the COMMITTEES

No	Name of the Committee	TOR
7	Remuneration Committee	Evaluation of performance of CMD and ED's for payment of incentive linked to the performance of the Bank.
8	Credit Approval Committee	Sanction of credit proposals upto Rs.400 crore / Rs.800 crore for the group and also OTS proposals for recovery There are other CACs at ED, GM, ZM, RM levels constituted with Board approval.
9	Customer Service Committee	Review the status of customer service, complaint management and innovative measures for enhancing quality of customer satisfaction;

TERMS OF REFERENCE (TOR) FOR Some of the COMMITTEES

No	Name of the Committee	TOR
10	Committee of Directors	For promotions to the cadre of General Managers in the Bank. Progress in disposal of Vigilance and non Vigilance cases
11	Human Research	Dealing in matters relating to HR, people development, succession planning, Recruitment & Promotion Policy & Training Policy
12	Shareholders / Investors Grievance Committee	Address grievances of investors and other allied matters.
13	Share Transfer Committee	Transfer of shares requested by the shareholders.

GOVERNANCE - Process

- The governing principle for stipulating constitution of Committees by Law Makers and Regulators is to ensure **focused, enhanced and qualitative decision making.**
- The Members of the Committees are expected to be **experts / having sufficient domain knowledge in area of Terms of References of the Committee;**
- The Boards are expected to have cohesive working and exhibit collegiality. Sometimes despite having good collection of individual personalities, many Boards struggles to form or maintain a cohesive team.

GOVERNANCE - Process

- Once in the board room, Directors' behaviour to seem to play a big role in their individual effectiveness and contribution to aggregate Board Performance as to their skills or competencies.
- A Committee Member must be conscious of the additional responsibilities that flow from membership of a Committee of the Board.
- As per international studies, Eight important behavioural types impact Board effectiveness and teamwork

8 important behaviours impacting the Board

1. Challengers	5. Conformists
2. Change Agents	6. Controllers
3. Counsellors	7. Critics
4. Consensus Builders	8. Cheerleaders

While the first Four enhance the Board Room effectiveness; the next four inhibit good Board Room Behaviour.

Concerns

- Generally, nomination of Directors to the Board /Committee(s) is based on representation and not on knowledge, competency or merit of the Directors;
- Board Committees should comprise of members with appropriate talent for its tasks assigned and who have diverse skills, knowledge and experience;
- As the nomination gets notified they are required to attend Board Meetings without sufficient knowledge of the organisational dynamics.

Concerns

- GOI nominates its Officials on the Board of the Bank who are also nominated on the Committees of the Board; Frequent changes in their nomination also results in loss of continuity in the Committees of the Board of the Bank;
- Attendance at meetings of the Committees:- Many of the Directors who are nominated to Committees are unable to attend the Meetings which result in either meetings conducted without full strength or by workarounds to ensure quorum.

Concerns

- While consensus is beneficial in decision making, dissent is also important. Directors are expected to voice their concerns / dissent at the meeting and if necessary record it. This requires conviction and courage to stand by one's view point which requires confidence backed by competence.
- There is no disincentive or punishment for indecision / wrong decisions / non compliance with the applicable.

Suggestions

- Appointments / Nomination on Board should be persons competent enough to understand banking business – Pool of Experts to be thought of;
- Experts in emerging areas need to be represented on Boards viz., Risk Management; IT, HR etc;
- Competence / Expertise of the Directors should become the principal criterion for Committee memberships;

Suggestions

- Annual Peer Assessment or 360 degree evaluation for Directors be conducted to keep them agile and connected;
- Orientation to Directors to understand the Bank, its business, regional and cultural dynamics.
- Directors should also develop themselves to participate in discussion at the meetings – ability to ask the right questions.

Suggestions

- Directors who can **commit time and efforts** apart from being **possessing domain knowledge and expertise** should also be a consideration for nomination on the Committees of the Board.
- Use of **Technology** such as Video / Tele conferencing to be used to facilitate quicker decisions.
- Urgent need to revisit the provisions of the Applicable Laws to make them relevant & contemporary

Q & A

THANK YOU