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CORPORATE GOVERNANCE IN PRIVATE AND PUBLIC SECTOR A BANK COMPARATIVE STUDY

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ABSTRACT

This study compares corporate governance procedures at State Bank of India (SBI) and ICICI Bank and various banks, a large private sector bank in India. The study examines how corporate governance improves openness, accountability, and stakeholder protection in banking. This study compares SBI and ICICI Bank's corporate governance principles and procedures to identify important differences and similarities. One goal is to evaluate the Board of Directors' corporate governance obligations in both institutions. This study examines how well boards handle governance procedures, including strategic decision-making and risk management. It evaluates whether bank subcommittees do their functions efficiently and effectively. The study examines the relationship between corporate governance compliance and stakeholder protection to show how strong governance frameworks protect shareholders, customers, and employees. This study also examines how corporate governance affects bank trust and acceptance. It investigates how open and ethical governance can boost a bank's credibility, client confidence, and market competitiveness. The study also examines how audit commissions ensure corporate governance compliance. The research shows the need of independent oversight in governance integrity and accountability by assessing SBI and ICICI Bank audit functions. This study illuminates the corporate governance practices of public and private sector banks in India, emphasizing the importance of good governance in financial stability and stakeholder confidence. To satisfy changing regulatory and stakeholder expectations, governance standards must be continuously improved.

KEY WORDS: Corporate Governance, Public And Private Banks Etc

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INTRODUCTION

Corporate governance is no longer a glamorous expression to be used in business discourse. It has become an extensive revolution to augment the stability, integrity and fairness of an organization. Every firm seeks a competitive edge by diversifying its investment portfolio. However, this must be consistent with the governance attribute, which is the greatest concern in the modern business environment. Corporate governance has evolved into a crucial strategic instrument for hedging corporate risk. In this regard, “corporate governance is a fair, equitable, transparent and justifiable management tool that aims at the long-term satisfaction of key stakeholders”. Corporate governance comes somewhere around the middle to balance the needs of the corporate society at the present time and the aspirations that organizations want to survive in the future. Governance practices protect the organizations from being extremists in corporate behavior in the name of innovation while rejuvenating the organizational values. Governance mechanisms are created and accepted in the contemporary corporate scenario because they control the risky behavior of the organizations by transforming them to become all the more constructive and worthwhile. Governance is becoming the cultural tone for organizations these days³.

The safeguarding of stakeholder interests is achieved through corporate governance, which entails the restructuring of corporate conduct to manifest greater integrity, openness, transparency, and disclosure. The universal wave of globalization, liberalization and privatization has challenged the conventional way of doing business. With the changing scenario of the business world, the business community is facing immense competition today. Allocating resources among the millions of aspirations has become the crucial job for management. Hence the need for governance has come to its highest peak. The imperative to function within an intensely competitive market has resulted in the adoption of precarious and unethical means of doing business to maximize profits, thereby escalating the risk within the broader national economy. In mitigating this risk associated with unjust investment practices aimed at profit maximization, corporate governance has demonstrated efficacy as a tool for ensuring sustained profitability, sustained growth, and the comprehensive sustainability of the business entity as a whole.

³ Aggarwal, P. (2013). Impact of corporate governance on corporate financial performance. IOSR Journal of Business and Management, 13(3), 01-05.

1.1 MEANING AND DEFINITIONS OF CORPORATE GOVERNANCE

According to the dictionary, the meaning of the term governance is either to govern or to rule. This meaning has been accepted into the lexicon of ordinary speech. Now let us look at the meaning from a more global perspective. Control is the essence of governance. It is possible to draw the notion of governance as direction and control of events from the word govern, which implies to direct and control. The academic literature generally views corporate governance as addressing issues that arise due to the split between the ownership and the control of a company. As posited by Jesover and Kirkpatrick, this perspective suggests that the principal considerations within corporate governance encompass the internal framework and regulations governing the Board of Directors, the establishment of independent audit committees, guidelines for information to shareholders and creditors, and the oversight of management. There exists no universally acknowledged definition of corporate governance, and consensus on a singular concept among all nations remains elusive. As a direct consequence of this, numerous models of corporate governance have emerged around the world. These models are differentiated from each other on the basis of the relative authority of owners, managers, and suppliers of capital⁴.

Corporate governance can be delineated as the amalgamation of systems, procedures, and relationships employed by various stakeholders, with a specific emphasis on top management and the promoter group. Its purpose is to effectively manage and administer a corporate entity. Corporate governance has been explained by the International Chamber of Commerce as the interlinkage between corporate managers, directors, and the providers of capital. Providers of capital include individuals and institutions that save and invest their wealth in the hopes of earning a return on their investment. According to Ajala, successful corporate governance involves developing trust, guaranteeing openness and accountability, and maintaining an efficient channel of information sharing in order to cultivate strong corporate performance. Corporate governance can be characterized as a collection of mechanisms utilized for the establishment, operation, and oversight of a corporate entity. The primary aim is to realize long-term strategic objectives while safeguarding the interests of the firm. In a broad sense, the interaction between shareholders, creditors, and the business itself is included under the scope of corporate governance. Additionally, it encompasses the connection that exists between

⁴ Arya, D., & Jaiswal, S. (2019). Corporate Governance—Looking Beyond Statutory Compliances. *The Management Accountant Journal*, 54(2), 75-78.

the company and the financial markets. In addition to this, it is also about the interaction that exists between workers and the corporate social responsibility of the firm. However, depending on the context, corporate governance may be understood in a variety of different ways, including those that are described below: The term corporate governance has also been given a more specific definition by Pacy, who describes it as “a system of rules and regulations and prudent approaches through which corporations are directed and controlled with due focus on the internal and external organizational structures and with an intention of monitoring the actions of the management and the Board of Directors, as a result, agency risks are mitigated and misdeeds of corporate personnel are prevented.” Therefore, corporate governance can be thought of as the system of laws and sound approaches by which corporations are directed and controlled focusing on the organizational structure so that executive behavior can be controlled and the associated risks can be hedged.

1.2 ORIGIN AND HISTORY OF CORPORATE GOVERNANCE

In the fourth century B.C., Kautilya penned his famous treatise on the art of statecraft, which is known as the Arthashastra. He did most of his literary work in the city of Pataliputra. According to historical accounts, Pataliputra was a city that was extraordinarily well structured and governed in accordance with the highest standards of democratic administration. It was the seat of power for the Mauryan Empire, and the brilliant nobleman Kautilya was in charge there. He had almost complete control over the decisions that were made by the government. It was the then classical period of India, when the flow of thoughts was along the lines of secular liberty and the liberated minds flourished with creative exuberance. This was the time when India was known as the land of a thousand temples. In such an atmosphere, with unconstrained and liberated reasons, Kautilya formulated his principles of the social, political, and economic framework of an ideal state in this book. He did so by tempering his rationalism with careful realism. The concepts that are documented and pondered in the book are appealing to the contemporary intellect because, at their core, they consider the state as an economic entity that is sustained by governance and administration, and that goes through the mutations of morals and manners⁵.

⁵ Banerjee, S. K. (2019) Corporate Governance of 2018, 2019 and Beyond. The Management Accountant Journal, 54(2), 70-74.

1.3 CORPORATE GOVERNANCE IN BANKING SECTOR

The Indian financial sector is made up of a massive network of banks, stock exchanges, and other financial organizations, in addition to a diverse array of financial products. Since the beginning of financial deregulation in the 1990s, it has gone through a substantial alteration in its underlying structural makeup. Prior to the implementation of financial liberalization, the Indian financial system was seen as an instrument of state financing from the middle of the 1960s all the way up to the early 1990s. The development of India's post-independence financial industry may be broken down into three separate eras, each with its own unique characteristics. Throughout the first phase, from 1947 to 1968, the Reserve Bank of India strengthened its position as the institution in charge of banking supervision and regulation. Up until the 1960s, the neo-Keynesian viewpoint was the most popular one. This viewpoint maintained that interest rates should be kept low in order to encourage capital accumulation. During this time period, the Indian financial system was mainly characterized by nationalization of banks, directed lending, and administratively controlled interest rates. The second era, which lasted from 1969 through the middle of the 1980s and was referred to as the time of financial repression.

The nationalization of 14 commercial banks in 1969 marked the beginning of the suppression of the country's financial system. Because of this, measures such as regulating interest rates and implementing directed credit programs were far more extensive during this time period. The third phase, which began in the middle of the 1980s and continued ahead, is marked by consolidation, diversification, and liberalization. However, throughout the early 1990s, the government of India began implementing a liberalization agenda that was far broader. The release of three key findings by the Chakravarty Committee in 1985, the Vaghul Committee in 1987, and the Narasimham Committee in 1991 served as the drive for changes in the financial industry. However, the suggestions made by the Narasimham Committee served as the basis for the changes, particularly with relation to banks and other types of financial organizations. In 1991, the government of India launched an all-encompassing initiative to liberalize the Indian financial system altogether. The liberalization agenda involves releasing interest rates from government control, lowering reserve requirements, and gradually reducing the amount of government oversight of banking operations, all while putting in place a regulatory framework for the market. Greater competency and efficiency of the Indian economy were two of the primary goals of the financial liberalization movement. As was discussed before, the commercial banking industry, stock exchanges, and other types of financial institutions are all

included in the financial sector. However, the banking sector continues to play a significant role as a resource mobilizer in the Indian financial system, which remains a bank-based financial system. It continues to be the primary source of funding for a huge number of families, small and medium businesses, and major industries, in addition to catering to the needs of a variety of other financial service providers. The importance of the banking sector was highlighted by the introduction of a number of banking sector specific reforms as part of a larger package of financial reforms. The goals of these reforms were to improve the overall performance of the Indian banking sector and to make the Indian banks more competent and more efficient⁶.

1.4 ROLE OF CORPORATE GOVERNANCE IN BANKING

STABILITY:

Corporate governance plays a pivotal role in ensuring the stability and integrity of the banking sector, which is vital for the economic health of a nation. Banks are unique financial institutions due to their fiduciary responsibilities, large-scale impact on economic activity, and their systemic significance. As such, robust corporate governance practices are essential to maintain transparency, accountability, and ethical operations, which directly influence banking stability.

a) Transparency: Building Public Confidence

Transparency in operations is a cornerstone of corporate governance that helps banks gain and sustain public trust. Transparent practices enable stakeholders, including customers, investors, and regulators, to have a clear view of the bank's financial health, policies, and decision-making processes. For instance, regular disclosure of financial statements, compliance reports, and risk assessments ensures that the bank operates in an open and accountable manner. Such transparency minimizes the risks of fraudulent activities and financial mismanagement, which can undermine the stability of both individual banks and the broader financial system.

b) Accountability: Strengthening Oversight and Governance

Accountability in banking ensures that every decision taken by management and the board of directors aligns with the institution's long-term goals and ethical standards.

⁶ Dalwai, T. A. R., Basiruddin, R., & Rasid, S. Z. A. (2015). A critical review of relationship between corporate governance and firm performance: GCC banking sector perspective. *Corporate Governance*, 15(1), 18-30.

Effective corporate governance mechanisms establish clear responsibilities for the board, management, and various subcommittees, such as risk management and audit committees. This structure enables proactive identification and mitigation of potential risks that could destabilize the bank. Accountability also ensures compliance with regulatory standards and fosters ethical practices, both of which are critical for maintaining stability in the highly regulated banking sector.

c) Ethical Operations: Preventing Financial Crises

Ethical operations form the foundation of trust between banks and their stakeholders. Corporate governance frameworks emphasize the need for ethical behavior across all 4 levels of the organization, deterring practices like insider trading, money laundering, and mismanagement of funds. History shows that ethical lapses in governance, such as those witnessed during the 2008 global financial crisis, can lead to catastrophic failures within the banking system. By embedding a culture of ethics and integrity, banks can ensure sustainable growth and financial resilience

Prevention of Financial Crises

Weak corporate governance has often been identified as a significant contributor to financial crises, as it leads to unchecked risk-taking, lack of oversight, and misalignment of management's incentives with stakeholders' interests. For example, during the 2008 crisis, poor governance practices in many financial institutions exacerbated the situation, resulting in widespread instability. On the other hand, strong governance frameworks help banks withstand financial shocks by enforcing prudent risk management, compliance with regulatory requirements, and alignment of business strategies with long-term objectives.⁷

Systemic Importance and Stability

Banks are interconnected with various sectors of the economy, making their stability a matter of national and global concern. Effective corporate governance ensures that banks do not engage in overly aggressive lending practices, misallocate resources, or expose themselves to excessive risks. A stable banking sector supported by sound governance minimizes the likelihood of systemic failures and promotes confidence among stakeholders. It also enhances

⁷ Dhar, S. K., & Lama, P. (2018) A Study on Corporate Governance Practices followed by Selected PSU and Private Banks of India. *IUJ Journal of Management*, 6 (1), 5-10.

the ability of banks to act as reliable financial intermediaries, crucial for supporting businesses, individuals, and governments. In conclusion, corporate governance is not just a regulatory requirement for banks but a strategic necessity to maintain stability and public confidence. Transparency, accountability, and ethical operations foster trust, prevent crises, and enable banks to function as resilient pillars of the economy. By adhering to strong governance principles, banks can contribute to financial stability, safeguard stakeholder interests, and uphold their critical role in the financial system.

1.5 DISTINCT CHALLENGES IN PUBLIC AND PRIVATE SECTOR

BANKS

The governance dynamics of public and private sector banks differ significantly due to their ownership structures, operational priorities, and regulatory frameworks. Public sector banks like State Bank of India (SBI) and private sector banks like ICICI Bank face distinct challenges, stemming from their respective objectives and stakeholders. These challenges impact their efficiency, decision-making, and ability to adapt to market conditions.

CHALLENGES IN PUBLIC SECTOR BANKS

(1) Bureaucratic Inefficiencies

Public sector banks operate under a government-dominated framework, where bureaucratic procedures often hinder swift decision-making and operational flexibility. The decision-making process is frequently delayed due to layers of approvals and compliance with public sector norms. This bureaucratic structure can limit the ability of public sector banks to respond to dynamic market conditions and customer needs promptly. For example, delays in implementing technological advancements or rolling out competitive financial products may place these banks at a disadvantage compared to their private counterparts.

(2). Government Intervention and Policy Influence

As government-owned entities, public sector banks are often subject to policy-driven decisions that may not align with commercial objectives. For instance, the government may direct these banks to support social welfare initiatives, such as farm loan waivers or schemes for financial inclusion, which, while socially beneficial, may strain their financial health. This dual mandate of profitability and socio-economic obligations

creates a complex governance environment where financial performance can be compromised.

(2) Asset Quality and Non-Performing Assets (NPAs)

Public sector banks have historically been burdened with high levels of NPAs due to their exposure to sectors that are vulnerable to economic downturns, such as agriculture and infrastructure. Political pressure to lend to certain sectors, coupled with less stringent credit appraisal systems in the past, has exacerbated this issue. As a result, public sector banks like SBI face ongoing challenges in improving asset quality and maintaining profitability.

(3) Retention of Talent and Skill Development

Public sector banks often struggle to retain skilled employees due to relatively rigid compensation structures compared to private banks. Talented individuals may prefer private sector opportunities that offer higher pay, performance-linked incentives, and faster career progression. This talent drain can impact the operational efficiency and customer service quality of public sector banks⁸.

CHALLENGES IN PRIVATE SECTOR BANKS

1. Pressure to Deliver Higher Returns

Private sector banks like ICICI Bank operate in a highly competitive environment and face intense pressure to deliver consistent and higher returns to shareholders. This profit-driven approach can sometimes result in aggressive lending practices, higher risk exposure, or overemphasis on short-term gains at the expense of long-term sustainability. Balancing profitability with prudent risk management is a constant challenge for private sector banks.

2. Intense Competition

The private banking sector is marked by fierce competition, not only among private banks but also with fintech companies and foreign banks. This competition drives innovation but also necessitates continuous investment in technology, product development, and customer acquisition strategies, which can strain resources.

⁸ Kaur, P. (2017). Role of Corporate Governance in Indian Banking Sector. *International Journal of Management and Commerce Innovations*, 5(1), 565-579.

3. Reputation and Risk Management

Private sector banks are particularly vulnerable to reputational risks arising from frauds, unethical practices, or non-compliance with regulatory requirements. Instances of corporate governance failures or mismanagement can severely impact public trust and shareholder confidence. For example, controversies involving private sector 7 banks in the past have highlighted the importance of strong governance and internal controls.

Customer Expectations and Service Standards

Private banks often attract customers who demand superior service, innovative products, and cutting-edge digital solutions. Meeting these high expectations requires significant investment in technology and customer relationship management.

Additionally, private banks must maintain a balance between automation and personalized services to retain customer loyalty.

Employee Performance Pressure

In private sector banks, employees face high performance expectations driven by aggressive targets and competitive work environments. This pressure can lead to high employee turnover and potential lapses in ethical practices, as employees prioritize target achievement over compliance or customer satisfaction.

1.6 REGULATORY DIFFERENCES BETWEEN PUBLIC AND PRIVATE SECTOR BANKS

While SBI and ICICI must comply with the same core regulatory guidelines, their regulatory experiences differ in some areas due to their ownership structures and operational imperatives.⁹

a) Government Oversight and Intervention in Public Sector Banks

As a government-owned entity, SBI faces additional oversight from the Indian government, which can influence its decision-making processes. The government may direct SBI to adopt specific policies, such as increasing lending to priority sectors (agriculture, housing, MSMEs) or implementing social welfare programs. These directions can sometimes conflict with commercial objectives, as seen in instances

⁹ Malhotra, D. K., Poteau, R., & Singh, R. (2011). Evaluating the performance of commercial banks in India. *Asia Pacific Journal of Finance & Banking Research*, 5(5), 15-37.

where SBI's lending practices are influenced by political considerations, such as farm loan waivers or financial inclusion initiatives. Moreover, public sector banks like SBI are often under greater scrutiny by Parliament and various government bodies, which can increase the regulatory burden on the bank. Government ownership also means that SBI must adhere to additional public accountability norms, including providing detailed reports to the Ministry of Finance and other governmental bodies.

b) Regulatory Flexibility and Private Sector Banks

Private sector banks like ICICI, on the other hand, have more flexibility in decisionmaking. They are not directly influenced by government directives in the same way that SBI is. However, private sector banks face greater pressure from shareholders and the stock market to maximize profits and maintain competitive positioning. This focus on profitability can lead to a different set of regulatory challenges, particularly in areas like risk management, asset quality, and corporate governance. Private banks are also more susceptible to market-driven regulations and shareholder activism. For example, ICICI, being a private entity, faces scrutiny from its investors and regulatory bodies like SEBI on issues related to corporate governance standards, executive compensation, and transparency in financial reporting. While private sector banks have the advantage of operational autonomy, they are also subject to stringent market regulations and shareholder expectations.

c) Corporate Governance Codes

Public sector banks like SBI are governed by a mix of RBI guidelines and the Government of India's directives on governance, whereas private sector banks like ICICI must adhere to corporate governance codes laid out by SEBI. These codes stipulate the structure of the board of directors, independent directorship, board composition, and the role of committees such as audit and risk management committees. While the governance structure in SBI may be influenced by the government's requirements (e.g., government nominees on the board), ICICI follows a more market-driven approach that prioritizes shareholder interests and management efficiency.

1.6.1 COMPLIANCE AND RISK MANAGEMENT CHALLENGES

For both SBI and ICICI, compliance with regulatory frameworks presents several challenges, particularly in areas like risk management and financial performance:

- a) **Risk of Non-Compliance:** Failure to comply with regulatory guidelines can result in heavy penalties, reputational damage, and loss of customer trust. For both SBI and ICICI, ensuring that regulatory requirements are met consistently is crucial for maintaining operational integrity and stakeholder confidence.
- b) **Evolving Regulations:** The regulatory environment is constantly evolving, especially with international developments like Basel IV and domestic changes in data protection laws. Both banks need to remain agile to adapt to these changes, which may require upgrading risk management systems, improving compliance training for staff, and investing in technology.

1.7 INTERNAL CONTROL SYSTEMS

Both public and private sector banks must implement robust internal control mechanisms to ensure compliance with regulations. This includes effective auditing systems, compliance checks, and regular assessments of risk exposure. While SBI may rely on government-set frameworks, ICICI has the flexibility to adopt innovative technology-driven solutions for real-time monitoring of compliance. Compliance with regulatory frameworks is a vital aspect of banking operations, ensuring financial stability, transparency, and public trust. Both SBI and ICICI are required to adhere to stringent guidelines set by regulatory bodies like the RBI, SEBI, and other authorities, but they face different challenges based on their public and private ownership structures. SBI, as a public sector bank, is more susceptible to government influence, which can sometimes impact its commercial flexibility. On the other hand, ICICI, being a private sector bank, is more market-driven and faces greater pressure from shareholders to deliver high returns while ensuring regulatory compliance. By effectively managing these regulatory challenges, both banks can not only protect themselves from legal risks but also enhance their credibility, financial stability, and stakeholder trust¹⁰.

CONCLUSION

The importance of corporate governance in India has grown significantly, particularly in sectors such as banking, where financial institutions play a pivotal role in economic stability. The Indian corporate governance framework, while comparable to those of developed countries, often struggles with effective implementation in both letter and spirit. In today's globalized

¹⁰ Misra, R., & Das, A. (2019). Corporate Governance in Banks in India. *Economic & Political Weekly*, 54(28), 97.

world, sound corporate governance practices are critical not only for achieving excellence in customer satisfaction, product and service quality, and social responsibility but also for fostering transparency and accountability in business operations. The banking industry is a cornerstone of India's economy. As a highly regulated sector, it requires robust governance mechanisms to ensure depositor protection, maximize shareholder value, and sustain financial stability. With globalization increasing competition and structural changes in ownership patterns, particularly as banks turn to public funding, the governance landscape has become more complex and demanding. Addressing these challenges through an effective corporate governance framework is essential for the banking sector to maintain trust and adapt to a dynamic environment.

Corporate Governance in banking sector is the system by which the rules and regulation is framed to control the activities of board of directors. In India financial institutions like, commercial banks, developmental banks, Regional rural banks plays important role in the economic development. Since banks are the backbone of every economy that's why strong governance system must be implemented for the smooth functioning of the financial system. Effective corporate governance is necessary for the transparency, integrity and stability of the Indian banking system and protecting the interest of all stakeholders i.e. employees, shareholders, depositors and the economy at large. The research in the previous chapters of this thesis is research on the corporate governance mechanisms followed by the Private and Public sectors banks of India. Since the Reserve Bank of India is the main regulator of all the banks in India. It has issued various guidelines and regulations for smooth implementation of corporate governance practices i.e. The Banking Regulation Act, 1949 and Corporate Governance Guidelines for Banks.

- I. Both private and public sector banks must ensure the level of disclosure and transparency by providing clear and concise information to its stakeholders, customers, shareholders and regulators.
- II. Since the banks are opaque in nature so it is very difficult to get proper information. Sometimes the important information's can be provided by the whistle blowers. There must be a system to protect the whistle-blowers of private and public sector banks.
- III. During the research it has been found that private and public sector banks has required numbers of male board members but there was minimum number of female directors. Therefore for proper implementation of corporate governance practices as per the direction of government required number of female directors must be appointed.

- IV. As it is observed during the research that majority of the private banks in India has not constituted the shareholders and investors grievance committees. So these banks must insure the implementation of these committees for the timely redressal of grievances of shareholders and investors.
- V. While selecting auditors of the private and public sector banks proper care must be taken by the audit committee members. The audit committee must also be prepared as per the corporate governance regulations.

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