

## **Corporate Governance Practice in Private Sector Banks with Special Reference to City Union Bank Limited**

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### **ABSTRACT**

*Banks are the most trusted financial institutions of our country. They mobilize and dispense the funds required for economic development. The financial development of a country greatly depends on the investor protection. Corporate Governance is such a tool to ensure investor protection through effective supervision and collaborating the working relationship between management and the supervisors. This paper aims at evaluating the Corporate Governance practices in private sector banks with special reference to City Union Bank. The Bank's practices regarding Shareholding pattern, Board practices, Board committees, Disclosures and Transparency of information during the financial year 2016-2017 as reported by the Bank in their Annual Reports was evaluated. It is observed that the City Union Bank has complied with the mandatory requirements of Clause 49 of the listing agreement.*

**Keywords:** Corporate Governance, Clause 49, City Union Bank.

### **INTRODUCTION:**

Banking system stands as the backbone of any country in terms of economic development. Banks are the most trusted financial institutions. Our Indian Banking system is one of the healthy performers among the other countries. The liberalized economic environment and globalization of financial markets has made the Corporate Governance inevitable. The Corporate Governance practice of banks should be focusing on pursuit of business ethics with professionalism to meet the interests of stake holders along with the social responsibility. Strict adherence to the fundamental banking principles, professional approach, adherence to the policies of lending and investments are some of the basics for the success and survival of any bank.

### **CORPORATE GOVERNANCE IN BANKING INDUSTRY:**

The Security Exchange Board of India has states "Corporate Governance is the acceptance by management of the inalienable rights of share holder as the true owners of the corporation and of their own role as trustee on behalf of the share holders. It is about the commitment to value, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company". As an important player of our financial system, Banks need special focus and adherence to the Corporate Governance. The Corporate Governance framework in India is enumerated by

- 1) The Companies Act, 2013
- 2) Securities and Exchange Board of India
- 3) Standard Listing Agreement of Stock Exchanges
- 4) Accounting standards issued by the Institute of Chartered Accountants of India (ICAI)
- 5) Secretarial standards issued by Institute of Company Secretaries of India (ICSI)

## REVIEW OF LITERATURE:

Meghna Thapar, Arjun Sharma (2017) has conducted an analysis on the Corporate Governance in India. The study has highlighted the importance and need of Corporate Governance in India with the case laws.

Gangandeep, Dr.Satinder Kumar (2016) has made a study on the Corporate Governance in Banking Sector. The different aspects like the need and importance of Corporate Governance along with the current situation is discussed in an elaborate way.

Dr.Abha Mittal, Ritika Agarwal (2015) has made a study on the need for Corporate Governance, its performance as well as the problems faced in India. The different models of Corporate Governance followed across different countries along with a comparison with our country was mentioned.

Sonia Sharma (2014) made an analysis of the Corporate Governance Practices as a case study of ICICI Bank Ltd, the practices of the Bank are evaluated in different aspects and the compliance is clearly evidenced.

## RESEARCH METHODOLOGY:

### Objective:

The study is intended to evaluate the corporate governance in private sector banks with special reference to City Union Bank Limited. The objectives are

1. To understand the concept of corporate governance in private sector banks
2. To evaluate the corporate governance practices of City Union Bank Limited during the financial year 2016-2017

### Sources of data:

The data collected is of secondary in nature. Annual reports of the bank for the financial year 2016-2017 and bank websites are the sources of data.

## CORPORATE GOVERNANCE PRACTICES IN CITY UNION BANK LIMITED:

City Union Bank was established on 31<sup>st</sup> October 1904. The bank has a total retail branch network of more than 600 branches and 1621 ATMs as on November 2017. The Bank offers a wide range of products and services to retail and corporate customers. The City Union Bank has launched the India's first on site humanoid banking robot named Lakshmi in November 2016. This study aims at analysis of the corporate governance of City Union Bank Limited on four aspects as

- 1) Shareholding Pattern
- 2) Board Practices
- 3) Board Committees
- 4) Disclosure and Transparency

The Bank has submitted a report on Corporate Governance which is pursuant to Regulations 34 read with schedule V of the SEBI ( Listing Obligation & Disclosure Requirements) Regulations, 2015, for the financial year ended 31<sup>st</sup> March 2017.

**Table 5.1: Share Holding Pattern as on 31<sup>st</sup> March 2017**

Sl.No	Category	No of Holders (Folios)	% of Holders	No. of Shares	% of Shares
1	Banks	7	0.01	533276	0.09
2	Bodies Corporate	1040	1.14	41877886	6.97
3	Clearing Members	138	0.15	624968	0.10
4	Directors	12	0.01	2012437	0.33
5	F.I.I's	7	0.01	3574041	0.60
6	Indian Financial Institutions	5	0.01	22592948	3.76
7	Mutual Funds	74	0.08	54871831	9.13
8	Non Resident Indians	1434	1.57	4425954	0.74
9	Relatives of Directors	25	0.03	16234020	2.70
10	Resident Individuals	86155	94.40	219764280	36.56
11	Employees	2238	2.45	14784859	2.46
12	Trusts	7	0.01	2751394	0.46
13	Foreign Portfolio Investments	108	0.12	216998319	36.10
14	NBFC	6	0.01	18668	0.00
	<b>Total</b>	<b>91256</b>	<b>100.00</b>	<b>601064881</b>	<b>100.00</b>

Table 5.1 shows that the retail, individual Indian investors hold the majority of the share holding of the bank which is 94.40%. The share holding of Foreign Institutional Investors (FII) in City Union Bank is very very negligible i.e. 0.01%.

**Table 5.2.1: Board Structure for the year 2016-2017**

Name of the Director	Category	No of other Directorships held
S.Mahalingam	Chairman (w.e.f. 04.05.2016)	11
Dr.N.Kamakodi	Managing Director & CEO	NIL
T.K.Ramkumar	Independent Director	NIL
C.R.Muralidharan	Independent Director	3
Justice (Retd) S.R.Singharavelu	Non-Independent Non-Executive Director	NIL
Prof.V.Kamakoti	Independent Director	NIL
R.Mohan	Non-Independent Non-Executive Director	NIL
Smt.Abarna Bhaskar	Independent Director	NIL
M.Narayanan	Independent Director (w.e.f.03.05.2016)	NIL
S.Bernard	Independent Director (w.e.f.21.07.2016)	NIL

The board of directors is considered to be the key and most powerful authorities in the functioning of the Bank as they ensure the separation of ownership and the management. The composition of the board of directors of City Union Bank as on 31<sup>st</sup> March 2017 was 10 Directors comprising of Independent Part-Time Chairman, Managing Director & CEO, 6 Independent Directors and 2 Non-Dependent, Non-Executive Directors. The Bank has also confirmed that none of the Directors are related to one another.

**Board Meetings:**

Board meeting is the formal meeting of the Board of Directors of the organization held at regular intervals to track with regard to meeting its goals, as well as to craft policies in support of those goals. As per clause 49 of the listing agreement there should be a minimum of four board meetings are to be conducted in a financial year with not more than 3 months of maximum time gap between two meetings. City Union Bank Limited has conducted 15 board meetings in line with the provisions of Companies Act, 2013, SEBI Listing Regulations, 2015 and the Secretarial Standards on Board Meetings issued by the Institute of Company Secretaries of India (ICSI).

**Code of Corporate Governance:**

The Board of the Bank has adopted a Code of Corporate Governance to ensure high standards in overall governance through transparency, accountability and responsibility, ethical and professional management practices, thereby protecting and enhancing stakeholder’s values. The code of conduct is signed by the Managing Director & CEO in compliance of clause 49 of the listing agreement.

**Board Committees:**

The Bank, in order to facilitate informed decision making in the best of its interests, has constituted certain committees with pre-defined terms of reference and have delegated specific powers for effective functioning and to monitor the activities falling within their terms of reference. The Bank has 12 committees as of 31<sup>st</sup> March 2017.

**Audit Committee:**

The terms and reference of the Audit Committees are in consonance with the RBI guidelines, SEBI Listing Regulations and the Companies Act, 2013. The prime responsibility of the audit committee is to oversee the financial reporting process so as to ensure fairness and credibility of the financial statements.

Particulars	Status	Compliance
Terms of reference	The committee directs the audit team and oversights the Bank’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible	Yes
Composition of the Committee	Five member committee with Chairman and 4 Independent Directors	Yes
Number of Meetings held	15 meetings was conducted	Yes

**Stakeholder's Relationship Committee:**

The Committee has been constituted in accordance with the provisions of Companies Act, 2013 and SEBI Listing Regulations, 2015. All the complaints received from investors during the year have been attended to and redressed within the statutory time limit

Particulars	Status	Compliance
Terms of reference	The committee intended for reviewing and redressing the complaints received from Share holders / Investors grievance mechanism and any other security holders for non receipt of dividends / warrants, annual reports, share certificate etc.,	Yes
Composition of the Committee	Five member committee with Chairman, 3 Independent Directors and 1 Non-Independent & Non-Executive Director	Yes
Number of meetings held	Four meetings conducted during the year	Yes
Status of Complaints resolved	All complaints received from investors during the year have been attended to and redressed within the stipulated time limits	Yes

**Credit Committee:**

Particulars	Status	Compliance
Terms of Reference	To consider and sanction credit proposals falling beyond the sanctioning powers of MD & CEO and within the specified limit as prescribed by the Board from time to time	Yes
Composition of the committee	Seven member committee with Managing Director & CEO, 2 Non-Independent & Non-Executive Directors, 2 Independent Directors	Yes
Number of Meetings held	15 meetings held for the year	Yes

**Committee to Review NPA and Suit Accounts:**

Particulars	Status	Compliance
Terms of Reference	To review NPA in Domestic and FOREX Credits and to review Suit/Non –Suit and technically written off accounts above Rs.50Lakhs	Yes
Composition of the committee	Five member committee with MD & CEO, 2 Independent directors, 2 Non-Independent & Non-Executive Directors	Yes
Number of meetings held	4 meetings held for the year	Yes

**Risk Management Committee:**

Particulars	Status	Compliance
Terms of Reference	To oversee the performance of risk management function in pursuance of the risk management guidelines issued periodically by the RBI & Board	Yes
Composition of the committee	Five member committee with Chairman, MD & CEO, 2 Independent Directors, 1 Non-Independent & Non-Executive Director	Yes
Number of meetings held	4 meetings held for the year	Yes

**Customer Service Committee:**

Particulars	Status	Compliance
Terms of Reference	To ensure effective customer service by the Bank as per the recommendations of Shri.S.S.Tarapore Committee	Yes
Composition of the committee	Five member committee with MD & CEO, 2 Independent Directors, 2 Non-Independent & Non-Executive Directors	Yes
Number of meetings held	Two meetings held for the year	Yes

In addition to the above, the board has from time to time constituted various committees like Nomination committee, Special Committee to monitor Large Value Frauds, Compensation & Remuneration Committee, Information Technology Strategy Committee, Corporate Social Responsibility Committee, and Premises Committee and so on.

#### **Disclosure and Transparency:**

The Bank has complied with all the mandatory requirements of Clause 49 of the Listing Agreement. Some of the important non mandatory requirements are also complied with.

<b>Particulars</b>	<b>Compliance</b>
Meeting of the Independent Directors	Held on 27 <sup>th</sup> March 2017
Related Party Transactions	There were no significant related party transactions of any material, financial and commercial nature
Strictures and Penalties	The Bank has not been imposed any penalty or stricture by Stock Exchange, RBI and SEBI / other regulatory authorities on any such matter during the year under report
Whistle Blower Mechanism	Bank affirms that no employee has been denied access to the MD / Audit Committee of the Board under the Whistle Blower Mechanism of the Bank. During the review year no reference was received from any source under Whistle Blower Policy
Means of Communication	The Bank has communicated through the quarterly results, news releases and presentations to Institutional Investors. The Bank's website contains a separate section "Investors" wherein all share holders information and disclosures are available.
Compliance of Corporate governance	The Banks has obtained auditor's certificate on the compliance of corporate governance. (Auditor : M/S. P.Chandrasekar, Firm no 000580S)

#### **FINDINGS AND SUGGESTIONS:**

It is evidenced from the study that the Bank has complied with the requirements of Clause 49 of the listing agreement, as far as the mandatory information and to an extend to the non –mandatory information. But more details are sought in case of the non-mandatory information as clear definition of the Non-Independent & Non-Executive Director, tenure and age limit of the Board members. It is also observed that the City Union Bank Limited follows very good Corporate Governance and Disclosure policies.

#### **CONCLUSION:**

Corporate Governance not only safeguards the stakeholders and the management but also faster the economic growth of the country. Good Corporate Governance is an important criteria for the FII to invest in our country. Banks being the first and foremost most trusted financial institutions in our country has the highest social responsibility to ensure strict compliance of the rules and regulations laid by the different regulatory authorities. It is possible through good Corporate Governance practices.

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