

RBI Consultative Group on Bank Boards submits Report

April 5, 2002

The Consultative Group of Directors of Banks and Financial Institutions (Fis) submitted its report to the Reserve Bank of India. It may be recalled that the Mid-Term Review of the Monetary and Credit Policy for the year 2001-2002, had announced that a Consultative Group of Directors of Banks/Financial Institutions would be set up under the Chairmanship of Dr. A.S.Ganguly, Director, Central Board of the Reserve Bank of India. The Group was to look into the role of board of directors of banks/FIs, and make recommendations, for consideration by the government/the Reserve Bank, for making it more effective with a view to minimising risks and over-exposure, as also to obtain feedback on the functioning of the boards vis-à-vis compliance, transparency, disclosures, role of audit committees, etc. The Group had wide consultations with the professional bodies connected with corporate governance principles and also met the representative bank groups.

Major recommendations of the Group pertain to:

- 1) appointment of one more whole-time director on the boards of large-sized nationalised banks;
- 2) establishment of appropriate due diligence procedures for appointment of directors on the boards of private sector banks;
- 3) setting up of nomination committees of boards of banks to recommend appointment of independent/non-executive directors;
- 4) building and creation of a pool of professional and talented people for board level appointments in banks and also maintenance of the data for the purpose by the Reserve Bank of India, etc.

Besides these, the recommendations also focus on the role and responsibilities of independent / non-executive directors, their training and remuneration, commonality of directors of banks and non-banking finance companies(NBFCs), information flow to/from the board, composition of financial committees of the board, etc.

The Group has also suggested that the banks could be asked to come up with a strategy for implementation of the governance standards recommended. Once the strategy is received from all banks, a periodical review of the progress of its implementation could be undertaken.

The Reserve Bank of India is considering the recommendations of the Group in consultation with the Government of India.

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