

Speech

Corporate Governance in Financial Sector*

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I am thankful to the organisers for giving me this opportunity to be with you today. In a way, I am a part of the Administrative Staff College, since I had spent one year in the late 'eighties as a full-time visiting fellow, doing some work on liberalisation and privatisation; apart from the fact that I have been visiting the College on and off since the 'sixties. So, there is no way in which I could have avoided the responsibility of responding to the invitation. But, more important, it was a command from Chairman of Staff College, Mr. Narasimham, my guru; and unfortunately we are going to miss him here today, since he is indisposed. Today's subject, corporate governance, is not merely fashionable now a days, but extremely relevant for us in India for a variety of reasons.

Corporate Governance

The literature on corporate governance in its wide connotation covers a variety of aspects, such as protection of shareholders' rights, enhancing shareholders' value, Board issues including its composition and role, disclosure requirements, the integrity of accounting practices, the control systems, in particular the internal control systems, insider trading and, what is described as self-dealing with which we are not entirely unfamiliar in our country. All these would certainly be debated by the set of professionals who are to interact here.

Role of Financial Intermediaries

A second area which is perhaps of special interest to Mumbai, being the financial centre, is the role of financial intermediaries in the corporate governance. This area has attracted a lot of attention in the recent past all over the world. In our country also, particularly in the last few months, there has been intense discussion on the role of financial intermediaries in corporate governance. Recently, the Unit Trust of India (UTI) held a seminar on Corporate Governance and Securities and Exchange Board of India (SEBI) is having a group working on it. The Confederation of Indian Industries (CII) and the Associated Chambers of Commerce and Industry of India (ASSOCHAM) have also been involved in the debate though their focus was on governance in general. The role of financial intermediaries in corporate sector is often discussed in terms of the Anglo-Saxon model or the Continental model. Familiar issues in literature on this subject relate to the role of creditor in corporate governance, the possible conflict between the role as a creditor and role as equity holder when financial intermediaries have exposure on both counts and, the issue of their representation on the Board on which there is currently a considerable debate in our country. Self-dealing, most certainly, is another area of concern and presumably this would also be considered in detail by this gathering.

Corporate Governance in Financial Sector

A third and an area of particular relevance to the Reserve Bank of India (RBI) relates to corporate governance in the financial sector. Today, therefore, the major focus of this presentation would relate to corporate governance in the financial sector itself.

It is possible to broadly identify different sets of players in the corporate governance system. For convenience they can be identified as law which is the legal system; regulators; the Board of

Directors and Executive Directors on the Board; financial intermediaries; markets; and self regulatory organisations. There is a dynamic balance among them that determines the prevailing corporate governance system, and the balance varies from country to country. In some countries, self-regulatory organisations are well established and in others, as you are aware, the financial intermediaries play a greater part. These balances vary from country to country and vary depending upon the stage of institutional development and the historical context. Since financial intermediaries are important players in corporate governance in India, special focus on the corporate governance in the financial sector itself becomes critical.

Secondly, the RBI, as regulator relevant to financial sector, has responsibility on the nature of corporate governance in the financial sector. Therefore, we, in the RBI, have to see how corporate governance is evolving, particularly in the context of the financial sector reforms that are being undertaken.

Third, banks are special and to the extent banks have systemic implications, corporate governance in the banks is of critical importance to the RBI.

Fourth, which is not peculiar, but certainly one of the important features of the Indian system, is the dominance of the Government or the public sector ownership in financial sector, whether it is the banking system or development financial institutions. In a way, Government, as a sole or significant owner of commercial, competitive, corporate entities in the financial sector would also set the standards for corporate governance in private sector.

Fifth relates to the reform process initiated since 1991-92. In the pre-reform period, most decisions were externally, i.e., external to the financial intermediary determined including interest rates to be paid or charged and whom to lend. But recently, there has been a movement away from micro regulation by the RBI. There is thus, a shift from external regulation to the internal systems and therefore, the quality of the corporate governance within the bank or financial institution becomes critical in the performance of the financial sector and indeed the growth of financial sector.

In this perspective of the significance of corporate governance in the financial sector in India, the rest of the presentation is divided into three parts.

The first relates to corporate governance in Government owned financial intermediaries, i.e., the nature of the corporate governance in the context of the Government ownership.

The second set relates to corporate governance and regulatory issues in financial sector, especially relevant to the Reserve Bank of India.

The third part identifies the areas that require attention, taking into account not only the ownership and regulatory aspects but also the total systemic requirements. The areas requiring attention are simply listed for further attention.

Importance of Corporate Governance Under Government Ownership

The evolving corporate governance system in Government owned banks and financial

institutions is very critical in India for a number of reasons.

First, public ownership is dominant in our financial sector and it is likely to be dominant for quite sometime in future in India. So, it sets a benchmark for the practices of corporate governance.

Second, the whole concept of competition in banking will have to be viewed in the light of the government ownership. If the regulator is trying to encourage competition, such encouragement of competition is possible if the market players i.e., banks concerned, are willing to respond to the competitive impulses that the regulator is trying to induce. It is possible that the nature of corporate arrangements and nature of incentive framework in the public sector banks are such the regulatory initiatives will not get the desired response or results. Consequently, the regulator's inclination or pressure to create an incentive framework for introducing competition would also be determined by the extent to which the corporate governance in public sector financial intermediaries is conducive and responsive.

A third factor is diversified ownership in many public sector financial intermediaries, both the banks and financial institutions. The government is no longer 100 per cent owner in all public sector organisations. In organisations where there has been some divestment, it owns directly or indirectly about 55 to 70 per cent. The existence of private shareholders implies that issues like enhancing shareholders value, protecting shareholders value and protecting shareholders rights become extremely important. Such a situation did not exist in most of the public sector and financial sector until a few years back. The issue is whether this transformation in ownership pattern of the financial system has been captured in changing the framework of corporate governance.

A fourth factor is that if the financial sector, in particular banking system, has to develop in a healthy manner there is need for additional funding of these institutions. More so, when the central bank is justifiably prescribing better prudential requirements and capital adequacy norms. If some additional capital has to be raised by these institutions, they should be able to convince the capital market and shareholders that it is worth investing their money in. In the interest of ensuring that the institutions have adequate capital and that they continue to grow, they should be in a position to put in place and assure the market that their system of corporate governance is such that they can be trusted with shareholders money. The issue, therefore, is how our public sector financial institutions have been performing in terms of enhancing shareholder values. This is extremely important from system point of view because, additional funding has to be provided either by the Government or by the private shareholder. Given the fiscal position, the Government cannot be expected to invest significant funds in recapitalising public sector financial organisations. In brief, Government as an owner has to appreciate the importance of enhancing shareholder value, to reduce the possible fiscal burden of funding of banking or financial institutions in future and so attention to corporate governance in public sector is relevant from overall fiscal point of view also - whether for additional investment by Government or for successful divestment of its holdings.

Fifth, there is the issue of mixing up of regulatory, sovereign and, ownership functions and at the same time ensuring a viable system of corporate governance. A reference has been made to this

in the Narasimham Committee Report on Banking Sector Reforms (Narasimham Committee II) and more recently in the Discussion Paper on Harmonising the Role and Operations of Development Financial Institutions and Banks (Discussion Paper on Universal Banking), circulated by the Reserve Bank of India. For instance, as the Narasimham Committee (II) has highlighted, in the case of the State Bank of India, the RBI is both regulator and owner. Also, ownership and regulatory functions are mixed up in the case of the Industrial Development Bank of India.

This situation of public ownership and mixing up of issues without identifiable principles of corporate governance is not typical of the Indian situation alone. It is quite common, and the OECD in a recent document on "Corporate Governance: SOEs and Privatisation" says:

"The weaknesses of governance in state owned enterprises stem from insufficient market-related incentives and disciplines. There is no market for corporate control, i.e., no threat of take-over and replacement of incumbent management, shareholder exit is not possible, and monitoring of performance by the state equity-holder is weak due mainly to the lack of economic motivation. Corporate governance is exercised by a chain of agents without identifiable principles."

Sometimes it is argued that privatisation of these state owned institutions would solve this problem. In this context, the OECD document, after discussing the privatisation, says:

"state owned enterprises will continue to be an important part of the state's assets at least in the medium term. It is, therefore, important to identify best practices for state owned enterprises corporate governance."

Thus, even if privatisation or divestment is resorted to, we cannot ignore the fact that corporate governance in public enterprises needs to be improved. Perhaps, there is a need for a transparent code of best practices for corporate governance in the state owned financial enterprises, and in any case, perhaps it has to be debated whether there is need for a set of the best practices for all financial intermediaries.

Corporate Governance and Government Ownership: Issues

Many areas which require attention in the context of corporate governance in the financial intermediaries under Government ownership can be found in both the Narasimham Committee Reports (Committee on The Financial System and Committee on Banking Sector Reforms). In fact, the international experience of the last one or two years, especially in Asia, has shown that macro level policy reforms by themselves are inadequate. The micro level reforms, institutional reforms and corporate governance issues have become even more important than what they were a year ago. Therefore, perhaps one cannot be content with simply implementing what the Narasimham Committee (II) has said, and one may have to look at these issues more closely now. Relevant issues that come to one's mind, in a somewhat random fashion, are the following:

The first one relates to the organisational set up. The question is, be it a bank or financial institution, if it is in competition with other institutions and more so if it is having private shareholders, should it be registered under Companies Act or should it be under a separate statute? A separate statute other than Companies Act is justified only when there are governmental-regulatory or statutory-monopoly functions. Statutory form, when inappropriate, causes avoidable burden on Parliament/legislature, on bureaucracy in government and on the enterprise itself. The private shareholders often lose many of the privileges of minority shareholders in a statutory form. In fact, the Narasimham Committee had recommended that the IDBI should be corporatised. By the same logic, public sector banks would also need to be corporatised.

Second, even conceding that there is need for a separate statute, is there need for a number of Acts? Incidentally, as far as banks are concerned, there are more than one, viz., State Bank of India Act, State Bank (Subsidiaries) Act and Nationalised Banks Act. While these Acts contain many provisions which are common there are a number of provisions which are different which render overall policy difficult.

Third, even assuming that banks are brought under the Companies Act, there is currently a difference in treatment between a Government-owned company in Companies Act and other companies in Companies Act. Should there be a category called Government-company, which can be very transient particularly since the concept of diversified ownership or transfer of ownership is accepted?

Fourth, Narasimham Committee (II) also raised a question whether regulators should be owners in the context of State Bank of India. RBI's discussion paper on Universal Banking has gone farther and expressed itself in favour of divesting its ownership in refinance institutions also. To implement the change in ownership most expeditiously, RBI has advocated transfer of ownership to Government, since Government could, in due course, consider divestment. It may be of interest to note that barring one Director, others are nominated by Government and not by the RBI even when the RBI owns majority or totality of shareholding in SBI and refinancing financial institutions. Incidentally, RBI had vacated its majority ownership role in Securities Trading Corporation of India Ltd. and Discount and Finance House of India Ltd., and is in the process of total divestment.

The fifth issue is whether regulators should be on the Board of the regulated. On first principles, there is no justification for a regulator like RBI to be represented on the Board at all - irrespective of whether it is public sector or private sector; profit making or loss making; well run or not. This view was also expressed in both the Narasimham Committee Reports.

The sixth one is the nature of Board level representation. Since financial intermediaries were created merely as instrumental arms of the planning system, Board level representation was determined by the statutes in a way that they represent the totality of the public interest in the system. The concept of the shareholder who has to get the value for his shares was not the major focus of the statute. With diversified ownership, amendments have been carried out whereby there is some representation for the private shareholders. However, the amendments, by and

large, indicate that even with 40 per cent private shareholding, private shareholders' representation on the Board may be restricted to 10 or 15 per cent of the members in the Board. There is need to review and take a stand on a reasonable Board level representation for private shareholders when there is mixed ownership between Government and the private sector.

Seventh relates to the categories of Executive and non-Executive Directors and the proportion between them. This issue also had been flagged by Narasimham Committee (II). There is no reason why each nationalised bank should have only two Board level Executives including the chairman. And by all account the present proportion between Executives and others in public sector banks and financial institutions is inconsistent with the international practices. Further, these Executives are appointed by the Government and they are accountable only to Government, the majority shareholder.

Eighth pertains to the representation in various Board committees, such as the management committee, and audit committee. Again, one needs to review the extent to which their composition is consistent with the best practices for corporate governance.

Ninth, these institutions operate under various regulations, rules, and directions of Government on many purely managerial issues even when there are private shareholders. The whole concept of corporate governance is based on what is known as Board run companies, and the question is whether public sector banks or financial institutions are Board run companies or not and if not, whether they should be.

Tenth concerns the role of Annual General Meeting (AGM). The statutory provisions may not reflect the generally accepted role of AGM, say on appointment of statutory auditors, etc. There are also questions about dispensing with the approval of annual accounts by AGM. In other words, just as the role of Board needs to be reviewed when there are private shareholders, the role of AGM should also be reviewed to ensure consistency with the best corporate practice.

The eleventh issue is of Board appointments in terms of transparency and accountability. What exactly are the considerations of Government in making Board level appointments? One of the suggestions in respect of banks was that for Board representation, there should be some sort of panel or certification. In this regard, it may be of interest to know that in April, the 'Economist' came out with an advertisement for suggestion for Board of Directors, i.e., non-official Board of Directors in Bank of England. That is the type of transparency that the world is moving to. If one wants the best talent in the country, and one is looking for professional Directors, perhaps there should be a process of transparent search, which ensures the required qualifications to start with, apart from attempting to ensure imparting of appropriate skills. Accountability of Directors in Public Sector banks is yet another aspect on which processes have to be put in place. Indeed the challenges may include making aware what Directors nominated to Boards are expected to do on the Boards; monitoring their actual performance and keeping a track of these while considering future appointments.

The twelfth and a well recognised aspect relates to timeliness of appointment of members of Board, whether it is Executive or non-Executive. It sometimes takes a number of years, if not decades, to reconstitute the Boards of some public sector banks.

There is also an issue of ensuring continuity of the Board and making it counter cyclical to the political development. If all the Board Directors are appointed at one time and given one tenure, then all of them would vacate at one go and there would be no continuity unless at least some are renominated. There are very few corporates where almost the whole Board gets replaced overnight. No doubt, it is due to the nature of political system that such things happen and for this reason there are standard practices in many countries where vacancies are filled in a way that is counter cyclical to the political system. For example, there could be an agreed practice with regard to a third of the Board members being appointed, say, every one or two years for a tenure of, say, three or six years.

Finally, the imposition or perception of the imposition of decisions on corporates by the dominant owner can influence the shareholders value. In regard to some of the transactions of public sector units, in the recent past, there was a perception that Government as majority shareholder is imposing decision on the corporate without reference to Board's view of its interest in the matter. Such perceptions seem to have eroded shareholder value in some cases.

Thus, on the basis of this presentation, I propose for your discussion two suggestions. The first, is to undertake a thorough review of the law and organisational set up in regard to the publicly owned financial institutions to make them consistent with good corporate governance practices, some of which have been hinted by Narasimham Committee (II). It is a question of taking up the issue in a more fundamental and broader sense than what was contemplated by Narasimham Committee (II). The second is to consider whether a code of best practices for government owned enterprises would be desirable because if Government has to be model employer, presumably Government should also be a model corporate governance practitioner. Such a code will help all Ministries and functionaries contribute to enhancing corporate governance in public sector.

Regulatory Issues and Corporate Governance

On the issue of regulation of financial sector and corporate governance in financial sector, Shri Talwar, Deputy Governor will address the gathering in detail. Hence, the presentation on this will be somewhat brief. In fact, Narasimham Committee (II) itself had covered a significant part of relevant ground. The major thrust of the RBI as regulator in the context of corporate governance was highlighted in Dr. Rangarajan's speech published in *The Banker* in October 1997. More recently, Governor Jalan's Monetary Policy statements of April and October 1998 do cover subsequent developments. In this presentation, I will emphasise a few aspects only.

First, corporate governance in Financial Institutions (FIs) needs urgent attention. A discussion paper on the subject by Shri Khan, former Chairman, Industrial Development Bank of India (IDBI), brings out the urgency, the seriousness and a possible approach very clearly. The salient points in the discussion paper could be summarised as follows:

The Board of Directors of any institution may ideally consist of 12 to 15 Directors, filled with persons of proven competence and high professional calibre. Of the Directors, at least, two-third should be non-Executive Directors and a majority of them should be independent of the institution as well as of the Government. The non-Executive Directors are to be appointed for an

initial term of three and re-appointed for an additional maximum term of three years. The roles of the Chairman and of the Chief Executive Officer should be separated and the Chairman should ideally be a non-Executive Director. The appointment of the Chief Executive Officer and other whole-time Directors should be left to the Board of Directors with the help of a Nomination Committee. A Nomination Committee comprising of Directors (majority of whom shall be non-Executive Directors) chaired by the Chairman should have the responsibility of proposing to the Board new appointments (both Executive and non-Executive Directors). A nominee of the Government of India or any of the institutional shareholders, having a stake of more than 26 per cent could be represented on the Nomination Committee without any veto power. The Committees of the Board dealing with credit/investment should have fair number of independent Directors while Audit Committee comprising entirely of independent non-Executive Directors should be compulsory. The Board of Directors assisted by a Compensation Committee of the Board consisting of non-Executive Directors headed by the Chairman should be the final authority to decide on the compensation payable to staff. The level of disclosures to the public needs to be significantly improved, and the disclosures to be made with Board approval, say with quarterly intervals, should include fourteen listed aspects. The financial institutions should be brought fully under the regulatory and supervisory ambit of the Reserve Bank of India. The Reserve Bank of India/Department of Supervision needs to devise suitable tools/norms for financial institution regulation/supervision consistent with the nature of their operations. The accountability of the management should be only to the General Body of the shareholders. The practice of separate supervision/monitoring of operations of financial institutions by the Government should be dispensed with.

The concluding part of Shri Khan's paper is of special significance to the issue of appropriate regulatory framework for financial institution, and some indication about the RBI's approach is available in the Discussion Paper on Universal Banking circulated by the RBI recently.

Second, RBI's approach to regulation in the recent past has some features that would enhance the need for and usefulness of good corporate governance in financial sector. The transparency aspect has been emphasised by expanding the coverage of information, timeliness of such information and analytical content, in RBI's monthly Bulletin and Weekly Statistical Supplement. Similar improvements have been made in Annual Report and Trend and Progress in Banking. Further, interaction with market participants and academics are more intense now than before, both at informal level and formal fora like advisory committees. Moreover, RBI is encouraging interaction with and where needed, guiding self-regulatory organisations such as Primary Dealers Association. This should aid the process of replacing external regulatory pressures with peer pressure or internal pressures, in addition to market pressures towards sound corporate practices. In this process, the RBI may have to play increasingly active role in reinforcing voluntary acceptance of code of best practices and encouraging self-regulatory bodies.

Third, with globalisation, the regulatory practices have to closely follow international practices, with appropriate modifications. The recently circulated draft guidelines of Bank for International Settlement on Capital Adequacy Norms is being examined by an internal committee in the RBI and at some stage interaction with market participants and academics would be essential.

Fourth, perhaps the most important area, which I hope will be further discussed, is the issue of institutional structure for regulation. The institutional structure for financial regulations should be consistent with good corporate governance. Because of the recent developments in financial sector, especially the issue of stability, almost everywhere there is a review of institutional structure for regulation. In some countries like UK, action has been initiated on this front while in others they might have not yet acted. In India, it is time for us to be conscious of the need for review. There are broadly two approaches to regulation. One is the institutional approach and the other is functional approach. The basis of the institutional approach is to cover institutions, irrespective of business, which is convenient from the prudential angle. The functional approach prefers to control business activity irrespective of the institutions. But the reality is that there is an overlap and such overlap between institutions and business activities are getting to be complex. In any case, there is no universally accepted model of regulation. It is, therefore, essential to review and identify a model that is relevant for current Indian conditions and is consistent with future needs.

There are five important issues regarding the institutional structure of financial regulation in India, which need to be addressed while undertaking a review - (a) There are regulatory gaps. (b) There are regulatory overlaps. There is a growing recognition about this issue from the point of view of developing market for securitised debt. (c) There is a perceived need for formal co-ordination between the regulatory agencies, which is currently occurring through an informal high level group on capital markets presided over by the Governor of the RBI with SEBI Chairman and Finance Secretary as Members. (d) A variety of issues are coming up with regard to the issue of Government nominees on the regulatory bodies and their role in regulation. Of course in the Reserve Bank of India the Government nominee is member of the Board but is a non-voting member. But in other organisations like SEBI, where there may be more than one nominee of Government, the question of regulatory-autonomy arises, more so if the Government is also the owner. (e) There are new developments like the establishment of insurance regulatory authority. There can be regulatory overlaps, for example, if State Bank of India diversifies into insurance business or insurance companies diversify into banking business.

Since there is no point in creating new bureaucracies, there are practical difficulties in massive redeployment of personnel, and expertise for regulation cannot be created overnight, some ways of filling up the regulatory gaps and overlaps should be found without disrupting the existing regulatory structures. I would propose that it is necessary to explore the feasibility of an umbrella regulatory legislation which creates an apex regulatory authority without disturbing the existing jurisdiction. The features of the ideas are: The Board for Financial Supervision of the RBI can continue to supervise banks and non-banks but with the Deputy Governor as Chairman; the insurance regulating authority will supervise insurance companies and Securities and Exchange Board of India will continue with its regulatory jurisdiction. The apex financial regulatory authority may be constituted, by statute with the Governor of the Reserve Bank of India as Chairman and the members could be Chairmen of the three regulatory agencies. The apex body should also include some outside experts on a part-time basis. Finance Secretary could be a permanent special invitee or a regular member without voting rights as in the case of the RBI Board. The apex authority could have by law, jurisdiction to assign regulatory gaps to one of the agencies; arbitrate on regulatory overlaps and ensure regulatory co-ordination. The apex authority could be serviced by a part-time secretariat of the RBI. In a way the proposal improves

and formalises the present informal arrangement into a legislative based authority. This idea could be debated as one of the options for regulatory reform.

Areas for Attention

There are a number of areas requiring attention, which are in the nature of random thoughts. They are not in any particular order.

First, there is an impression that the whole debate on corporate governance in India is restricted to large corporates in India. Are the middle level corporates, industries, associations and financial organisations in a position to atleast benchmark where they are? There is a need for some studies with regard to the nature of corporate governance by size and sector, to include of course, financial sector.

Second, during 'sixties, 'seventies and even in 'eighties, the sensitivity of public policy was to the concentration of the economic power but that view was abandoned with amendment to the relevant Act. But a serious problem recently observed in Asia relates to the intra-group allocation of resources, i.e., within the same group, particularly family groups. Intra-group allocation of resources to the extent it is non-transparent and goes unmonitored, could make a travesty of genuine corporate governance. The status of intra-group allocation of resources and mechanisms to disclose and to monitor are areas that need urgent attention.

Third, the role of Foreign Institutional Investors (FIIs) in corporate governance cannot be ignored. Particularly, after the Asian crisis, the FIIs have been placing a lot of emphasis on corporate governance. Both from corporates point of view, who want to attract foreign investment and from the macro economic point of view where India wants capital inflows, the standard of corporate governance assumes importance.

Fourth, steps must be considered to meet international standards in many aspects relevant to corporate governance. There is an extraordinarily increasing emphasis on relevant standards as for example, on bankruptcy laws which are sought to be made consistent with some principles in all countries. It is not possible for any country to be one hundred per cent in conformity with the international standards but the deviation should be explicable, and that is another area where attention is required. According to the latest BIS report, the regulators in industrialised countries (say, the UK) may have to satisfy themselves that the regulatory frame in emerging economies (say, India) is of international standards to permit entities (say, State Bank of India) to operate (say, in London).

Fifth, globalisation is not a one way process, and hence, Indian corporates have to operate increasingly in other countries to raise resources or establish joint ventures etc. It would imply that our corporates, especially larger ones, should meet global standards in corporate governance.

Sixth, yet another area which has not yet come to the fore but it should come up more openly soon, relates to credit rating agencies. The perception of fallibility and non-accountability of credit rating agencies is growing. Often, corporate decisions, including investments by financial intermediaries are taken solely on the basis of credit rating of select agencies. The question of

some sort of regulation or independent or credible rating of rating agencies themselves, is now being debated.

Seventh, the credibility of professional organisations like the chartered accountants should be of high order, both with respect to the adequacy and integrity of disclosures. The irregularities that have occurred in the financial sector a few years ago have raised questions about the possibility of inadequacies, if not connivance. Professional bodies should assure issue of quality that would satisfy international standards.

Eighth, with regard to company secretaries also, the question of quality arises. In the context of corporate governance, company secretaries could carve out a special and unique role for themselves. Another issue is, whether introduction of representation for company secretaries on par with chartered accountants in Boards of public sector banks and financial institutions will give a wider net of professionals. There is merit in pursuing this suggestion.

Ninth, it will also be useful to scan the research methodology on the subject of corporate governance. There is little or no academic work to my knowledge on this in India. The research methodology is important because the corporate governance issues also involve measurement, monitoring and management.

Conclusion

I am not advocating that the banks and financial institutions should jump into an ideal corporate governance situation. It would be inappropriate to do so and it would be more desirable to slide into it gradually but not leisurely.

To conclude, regulators are external pressure points for good corporate governance. There seems to be a feeling that mere compliance with regulatory requirements is an ideal situation. In fact, mere compliance with regulatory pressures is a minimal requirement of good corporate governance, and what are required are internal pressures, peer pressures and market pressures to reach standards for higher than minima prescribed by regulatory agencies. The road to efficiency lies in minimising regulatory prescriptions and maximising voluntary codes to ensure excellence in corporate governance among financial intermediaries.

* **Inaugural Address by Dr. Y. V. Reddy, Deputy Governor, Reserve Bank of India, at the Workshop on "Corporate Governance in Bank and Financial Institutions" organised by the Administrative Staff College of India, Hyderabad and Yaga Consultants, Hyderabad at World Trade Centre, Mumbai on June 14, 1999.**