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CORPORATE GOVERNANCE AND CAPITAL ADEQUACY PARAMETERS OF SMALL FINANCE BANKS

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I. INTRODUCTION:

The role and importance of the board of directors in the corporate governance of financial and banking institutions have become more important during the post-global financial crisis of 2008. The Basel Committee on Banking Supervision (BCBS, 2015) emphasizes the importance of corporate governance. The primary objective of corporate governance would be safeguarding stakeholders' interest in conformity with public interest on a sustained basis. Good corporate governance practices in banking institutions are essential conditions for achieving and maintaining of public trust and confidence in the banking, financial and economic systems of the country.

Objective of the study

- ❖ To study corporate governance practices and capital adequacy parameter of Small finance banks.

Limitation of the Study

- ❖ The study were restricted to only selected small finance banks.

Research Methodology

Research Design

The research design refers to the overall strategy that the researcher can choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring that the researcher will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data. The current study of research design is descriptive in nature. The Descriptive research is used to obtain information concerning the current status of the phenomena and to describe "what exists" with respect to variables or conditions in a situation.

Sources of Data

The secondary data related to corporate governance and bank performance were used.

Secondary Data

- The required secondary data of governance variables were collected from corporate governance reports of small finance banks. The performance variables were collected from the database like Centre for Monitoring Indian Economy (CMIE) and India stat and Capital line.
- In addition to that the data was collected from the books, magazines, journals and websites, etc.

Period of Study

The study period consists of four years i.e., from 2019 to 2022.

Sampling Methods

The researcher used simple random sampling technique.

II. REVIEW OF LITERATURE

Banks are very important in economic growth and have a dominant position in the financial system of any country (Levine 1997; 2005). Banking sector plays a very important role in the economic growth of a country. Corporate governance in banks gained importance after the global financial crisis (Himaj, 2014). The global financial crisis which started in the US due to US banks more risk-taking brings the attention of people and related authorities to control such risk problem and the importance of good corporate governance in the banking industry (Beltratti & Stulz, 2009; Peni & Vahama, 2011). Himaj (2014) argued that poor corporate governance was one of the causes of the global financial crisis. After the global financial crisis, a need is arisen to reexamine the corporate governance of banks all over the world. After the global financial crisis the Basel Committee (Basel, 2010), the OECD (OECD, 2010), and the Walker Review (Walker, 2009) made efforts to improve and promote better governance of banks. (Sarkar & Sarkar, 2018).

III. Conceptual Background of the Study

Corporate Governance in India

The history of the corporations in India and the mechanisms for governing it can be traced back to 800 BC to the sreni system (Khanna, 2005). Corporate governance gained importance in India after the adoption of the structural adjustment by the government in July 1991. After 1991 India has become more integrated with the world market. Therefore it has become important for India to match international governance codes. India withstood the Asian financial crisis of 1997-98 comparatively well, but the fallout from the crisis demonstrated that the corporate sector could play an important role in transmitting financial shocks and putting the financial sector at risk. Mismatches in the corporate sector's balance sheet brought to light both domestic and external vulnerabilities (Som, 2006). Several recent corporate scams like Satyam scam, Harshad Mehta fraud, Sharda chit fund fraud, etc. further raised the need for better corporate governance codes in India. There have been several corporate governance initiatives launched in India.

Committees of the Board

(a) Audit Committee of the Board (ACB)

The ACB shall be constituted with only non-executive directors (NEDs). The Chair of the board shall not be a member of the ACB. The ACB shall meet with a quorum of three members. At least two-thirds of the members attending the meeting of the ACB shall be independent directors. The ACB shall meet at least once in a quarter. The meetings of the ACB shall be chaired by an independent director who shall not chair any other committee of the Board. The Chair of the ACB shall not be a member of any committee of the board which has a mandate of sanctioning credit exposures. All members should have the ability to understand all financial statements as well as the notes/ reports attached thereto and at least one member shall have requisite professional expertise/ qualification in financial accounting or financial management (e.g., experience in application of accounting standards and practices, including internal controls around it).

(b) Risk Management Committee of the Board (RMCB)

The board shall constitute an RMCB with a majority of NEDs. The RMCB shall meet with a quorum of three members. At least half of the members attending the meeting of the RMCB shall be independent directors of which at least one member shall have professional expertise/ qualification in risk management. Meetings of RMCB shall be chaired by an independent director who shall not be a Chair of the board or any other committee of the board. The Chair of the board may be a member of the RMCB only if he/she has the requisite risk management expertise. The RMCB shall meet at least once in each quarter.

(c) Nomination and Remuneration Committee (NRC)

The board shall constitute an NRC made up of only NEDs. The NRC shall meet with a quorum of three members. At least half of the members attending the meeting of the NRC shall be independent directors, of which one shall be a member of the RMCB. The meetings of the NRC shall be chaired by an independent director. The Chair of the board shall not chair the NRC. The meeting of NRC may be held as and when required.

IV. ANALYSIS AND INTERPRETATION:

Capital adequacy parameters in this research study included two ratios: capital adequacy (CAR) and equity to total assets ratio (E/TA).Banks must maintain a minimum rate of capital adequacy in accordance with banking regulations and calculated by Tier 1 capital + Tier 2 capital/RWA, and the equity to total assets ratio is calculated by equity/total assets of the bank.

The most commonly used indicator of a bank's soundness is the capital adequacy ratio. It represents the bank's ability to absorb disruptions in the moment of negative events. The concept of "capital adequacy" refers to the ability of the bank to sustain potential losses. It is needed to retain depositors' trust and prevent the bank from going bankrupt.

Capital Adequacy Ratio (CAR)

Year	AU	Capital	Equitas	Suryoday	Ujjivan
2022	21.99	19.11	23.61	29.57	28.81
2021	19.31	16.40	22.44	35.03	18.94
2020	19.31	19.66	29.63	37.94	23.04
2019	23.04	22.95	35.51	53.62	18.24

Avg.	20.91	19.53	27.8	39.04	22.26
Rank	**4**	**5**	**2**	**1**	**3**

The above table reflects the results of the CAR of SFBs for the last four years. The highest average of CAR was secured by Suryoday Bank (39.04), followed by Equitas (27.80), Ujjivan (22.26), AU (20.91) and Capital (19.53). Suryoday bank had the highest, at 53.62%, indicating that the bank has not fully utilised its resources and is cautious in nature. In this research study, capital parameters also include an E/TA ratio measuring solvency that is calculated using a bank balance sheet.

Equity to Total Assets Ratio (E/TA)

Year	AU	Capital	Equitas	Suryoday	Ujjivan
2022	0.72	0.63	5.45	1.61	10.47
2021	0.90	0.66	6.38	2.17	11.93
2020	1.52	0.85	7.56	3.12	17.31
2019	2.91	0.99	10.88	3.99	19.44
Avg.	1.51	0.78	7.57	2.72	14.79
Rank	**4**	**5**	**2**	**3**	**1**

It provides that the result of the E/TA ratio of SFBs for the research period. In this ratio, Ujjivan bank (14.79) secured first rank, followed by Equitas (7.57), Suryoday (2.72), AU (1.51) and capital (0.78).

Calculation of Group Rank

Ratios	AU	Capital	Equitas	Suryoday	Ujjivan
CAR	4	5	2	1	3
E/TA	4	5	2	3	1
Average	4	5	2	2	2
Rank	**4**	**5**	**1**	**1**	**1**

It denote that the result of the rank of capital parameters. From the average result of individual rank of SFCs obtained in CAR and E/TA ratio, Equitas, Suryoday, and Ujjivan banks secured first rank, whereas AU and capital SFBs secured fourth and fifth rank, respectively.

V. FINDINGS AND CONCLUSION

- The highest average of CAR is 39.04 secured by Suryoday Bank.
- The highest average of Equity to Total Assets Ratio is 14.79 secured by Ujjivan bank.

Conclusion

Based on the findings, the corporate governance play a vital role in banking industry. The role and importance of the board of directors in the corporate governance of financial and banking institutions have become more important during the post-global financial crisis. The research study concluded that the competition between the small finance banks was intense in capital and management parameters. All the selected small finance banks have maintained the capital adequacy ratio as per RBI norms.

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