A Study on Corporate Governance IN JK Bank and its Performance

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Abstract

Corporate governance and economic growth and well-being are examined in this paper. More favorable treatment of all stakeholders is found to result from better corporate frameworks. These channels operate not only at the level of the firms, but also in sectors and countries—though causality is not always clear in many studies." Voluntary and market-based corporate governance mechanisms are less effective when a country's corporate governance and property rights systems are weak. Indirect links between corporate governance and poverty are harder to prove. Several regional and national corporate governance issues have yet to be thoroughly investigated. Banks, family-owned businesses, and state-owned enterprises all have unique corporate governance challenges, and these issues, as well as the nature and determinants of enforcement, are poorly understood.

Introduction

Jammu & Kashmir Bank Limited ("the Company" or "the Bank") conducts its operations under the overall direction of the Board of Directors within the framework laid down by various statutes, more particularly by the Companies Act,2013, the Banking Regulation Act, 1949, Articles of Association of the Company, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), internal code of conduct and other policies formulated by the Bank, from time to time, for its internal execution. As one of the most important functions of the Board of Directors is to oversee the functioning of the Bank's top management, this Board Performance Evaluation process aims to ensure that individual directors ("Directors") and the Board of Directors of the Bank ("Board") as a whole work efficiently and effectively in achieving Bank's objectives. This policy aims at establishing a procedure for the Board to conduct periodic evaluations of its own performance and of its committees and individual directors. Hence it is important that every individual Board Member effectively contributes in the Board deliberations. The evaluation process will be used constructively as a system to improve the Board and committees' effectiveness, to maximize their strength, and to tackle shortcomings if any. Therefore, the Bank has made this policy to comply with the various provisions of the Listing Regulations and the Companies Act, 2013, with respect to evaluation of the performance of the Board, its committee and individual Directors.

J&K Smart Corporate Governance

Corporate Governance is a mechanism that guides companies to govern and run their affairs. The major players in the area are Board of Directors, Shareholders, Employees, Customers, Financiers, Investors, Vendor-Partners, Government, Society and Regulators. The key aspects of Smart Corporate Governance involve a set of transparent relationships amongst all stakeholders. It may encompass Business Philosophy, Business Ethics, Organization Culture, Corporate Social Responsibility, Shareholder Value Creation, Dynamic Leadership and Green World. Effective Corporate Management and Smart Corporate Governance Practices in a corporate set-up have a potential to significantly improve corporate performance and optimize the stakeholders' value based on law, ethics and sustainability. Here SMART refers to Systematic-Motivated-Accountable-Responsive-Transparent Corporate Governance. This is destined to ensure equity and transparency to every stakeholder. The implementation of Smart Corporate Governance Practices in banks, like any other body corporate, ensures them to cope with the changing business environment.

The J&K Bank, state's prime financial organization, started its journey in the year 1938 and in 2018 it celebrated 80th year of successful existence. During its life time, the Bank is reported to have established a tradition of exemplary practice in Smart Corporate Governance. However, during the past some weeks, there have been media reports pertaining to certain lapses in its Corporate Governance Practices including financial disclosures and recruitment processes. In order to overcome the issue, the State Administrative Council (SAC), which met on November 22, 2018 at winter capital Jammu, decided to declare the J&K Bank as a Public Sector undertaking (PSU), bringing it under the ambit of RTI Act, 2009 directing it to follow CVC guidelines and making the Bank accountable to the state legislature.

This move generated lot of debates and discussions amongst the citizenry in the state seeking the reversal of the decision. This decision was termed even as thoughtless likely to have a very negative impact on the organizational functioning. Notably, the bank is a listed company in which the government has major shares (59.23 per cent) but there are other shareholders

(40.77 per cent) as well. It is argued that SAC cannot arbitrarily declare the Bank as a PSU without taking other stakeholders into confidence. The Bank is governed by the Indian Banking Regulations Act, 1949; Indian Companies Act, 2013; directed by the guidelines of the RBI and the SEBI as the regulators overseeing its operations. Therefore, declaring it as a PSU does not make any sense in the aforesaid backdrop and in the context of Madhav Godbole Report (on state PSUs).

This write-up puts forth certain arguments to strengthen further the Smart Corporate Governance Practices in the Bank as detailed hereunder:

The focus must be on more Voluntary Disclosures through 'Notes on Accounts'. This would certainly widen the canvas of transparency and accountability. Of course, there are also Statutory Disclosures as per different Acts and Mandatory Disclosures in accordance with Accounting Standards prescribed by the Institute of Chartered Accountants of India. The NPAs should be classified under ABC analysis with emphasis on value-wise and number of account holders to ensure transparency. In A Category, there would be high value NPAs with less number of account holders while the position would be vice-versa in C category;

The HR consultants must be switched over periodically for ensuring transparency and fair-play in the recruitment processes. To strengthen the workforce, more Professionals in Accounting, Engineering, Secretarial Practices, Cost Management besides Experienced Practitioners must be invited to serve the Bank;

The Board may co-opt members from employees, society, depositors or even borrowers in different committees to make them inclusive and more stakeholder-based. This would ensure wide-based debates and discussions in different meetings of the Board as and when held to effect synergy in strategic business decisions;

There should be zero tolerance for political interference in the functioning of the Bank. It is a business organization following a 'Unique Business Model' which should never be tempered by any external forces whosoever. This would eventually result in keeping the Business Autonomy of the Bank intact;

The Bank business is based on 'Spread' which is the result of interest earned on borrowings and interest expended on deposits. The deposits of the Bank as on 31st March, 2018 were Rs 80,006.50 Crores and the share capital Rs 55.70 Crores. The size of deposits is thus 1,436 times of the share capital. This clearly signifies the main stake of the deposit holders. Further, the Budgetary Control Process will guide the Bank to see that the performance achieved is in line with the targets fixed in varied business parameters;

The Board should ensure that the Bank does not resort to 'Creative Accounting Practices'. It is experienced across the globe that such practices have ultimately tumbled down even the big business giants;

The Concurrent, Statutory and Government Auditors have now added responsibility to verify and validate, in the professional way, with due regard to fair accounting and legal practices while certifying the financial statements of the Bank;

More focus must be on work culture and Customer Relationship Marketing. The Training Institute of the Bank must increase the frequency of behavioral training programmes and development of the employees at all cadres;

The RTI, of course, empowers citizenry to cause an action even if the Bank is brought under the purview of RTI Act, 2009. The experience shows that the information obtained on flimsy grounds results in more negatives rather the real spirit of the law; and

The Corporate Governance Audit must be a part of the Corporate Governance Report. This practice must be strictly adhered to for bringing the efficacy in policy decisions otherwise there is every probability of policy paralysis.

Performance of J&K Bank

The Jammu and Kashmir Bank stock has been an impressive performer lately after many years. After the bank declared its results and pocketed a profit of Rs 432.13 crore in 2020-21 - Rs 315.75 crore of it in the last quarter (January - March 2021) only, its shares were on a bull run. This has been the highest ever profit the bank posted since March 2014.

The stocks performed so extraordinarily on the bourses that they hit the upper circuit apparently because of the information to the stock exchanges that the Jammu and Kashmir government will continue to support the bank. It gave confidence to the investors that almost 20 per cent appreciation took place within 24 hours.

The Jammu and Kashmir government despite playing a lot of politics with the premier financial organisation did not alter one basic thing - to support it. The government infused Rs 500 crore capital to the bank in 2018-19 fiscal and has budgeted another tranche of Rs 500 crore for the current fiscal. This infusion comes at a time when the bank was around the edge where it would have eroded its capital base and would not have been able to lend any more.

Now, the bank is planning to let its staff purchase shares under an employee stock purchase plan (ESPP) on discounted rates to raise Rs 150 crore. Once this happens, the government will release Rs 500 crore. The details of this plan are not yet fully in the public domain.

	2017	2018	2019	2020	2021
Deposits (Rs Cr)	99264.61	109976.56		132829.66	148677.1
Advances (Rs Cr)	44305.66	51914.29		64126.06	77867.37
Business (Rs Cr)	143570.27	161890.85		196955.72	226544.5
Credit Deposit Ratio	44.63	47.2		48.28	52.37
Gross NPA (Rs Cr)		2306.4			4664.35
Gross NPA (%)		4.82			5.99
Adavances (education) (Rs Cr)	359.42	383.96		506.66	602.03
Advances (housing)	2821.49	3841.19		6792.49	8003.74
Advances (women) (Rs Cr)	3497.14	2952.97			
Advances (Agriculture) (Rs Cr)	6944.59	7444.27		8589.63	9783.7
Advances (Industries) (Rs Cr)	11417.63	14083.11		15976.48	17048.62
Source: Kashmir Life					

Performance of the banking sector in J&K in the last five years

A Clean Balance Sheet

The results of the bank for the last fiscal also indicate the same concern. There is no denying the fact that part of the profit story owes to the exemplary dedication of its staff despite the pandemic. The bank lost five of its officials to Covid19 and many hundred survived the infection. Various factors contributed to better profit, for the first time after March 2014.

"Twice in past was the balance sheet cleaned though it bled the bank," an insider who analysed the results said. "To be fair with everybody, the age-old style of adhoc advancing was stopped through a systemic intervention that resulted in a reduction in bad assets, costs and eventually less requirement for the provision and eventually led to better saving for profit. This made the balance sheet, clean and strong in fundamentals." The bank has a provision coverage ratio at an impressive 81.97 per cent. He said the three lockdowns had a "very minimal" impact on the advance portfolio of the bank because the cleaning of the bank had happened earlier to that.

Experts said the fact is that the last fiscal was not a huge growth year for J&K bank at all. The balance sheet suggests that the growth on year on year basis in advances was only three per cent (on pan India basis) though, in Jammu and Kashmir, it is 16 per cent; deposits grew by nine per cent and there was negative growth in interest and income.

The interest subvention of five percent that the Government of India announced in 2020 got Rs 1000 crore to the bank and it prevented any slippages on account of business accounts. This amount helped a lot of accounts to survive the asset classification norms prescribed by the regulator.

Talking to a TV network, the Chairman and MD of the bank said that in fiscal 2020, the bank restructured a loan portfolio of Rs 270 crore and in the current financial year, they have restructured Rs 67 crore loans, already.

Not Delinked From Economy

The performance of the Jammu and Kashmir Bank cannot be delinked from the erstwhile state of Jammu and Kashmir because it continues to be the main building block of its economy. The challenges it faced owing to the post-August 5, 2018 situation and two waves of the pandemic were manageable in comparison to the interventions within the bank for narrow political reasons.

Bank's performance is still the best if the overall performance of the banking sector in 2020-21 is analyzed. The fact remains that Jammu and Kashmir cannot be imagined without Jammu and Kashmir Bank and perhaps that is why it, off late, has been politicized.

Credit Appetite Low

In the last financial year, while the deposits of all the banks grew by Rs 15847 crore to reach Rs 148677 crore, the advances grew by Rs 13141.31 crore to reach Rs 77867.37 crore. Interestingly, Jammu and Kashmir Bank alone has a loan book of Rs 50166.94 crore, which means that it controls 64.42 percent of the overall loan book in Jammu and Kashmir. Of the advances in the last fiscal, Jammu and Kashmir Bank's share is more than 49 percent with Rs 6456.43 crore.

The nationalized banks that service Jammu and Kashmir through a network of 453 branches have cumulatively advanced Rs 5949.29 crore, of which Rs 3422.31 crore was advanced to the corporate sector by the State Bank of India. This means that only Rs 2526.98 crore has gone to the Jammu and Kashmir market directly.

Even though the figures look very impressive, the fact is that there is huge stagnation and Kashmir has taken a huge hit. By the end of March 2018, the Kashmir region had cumulative bad assets of Rs 1171.84 crore, almost 4.54 percent of the advances. In the Jammu region, the NPA was at Rs 1111.03 crore, which was 5.54 percent of the advances. Traditionally, the banks earn more in Kashmir because it has a huge credit appetite than Jammu.

By March 2021, the bad assets have gone through the roof. Now Kashmir region has an NPA of Rs 3046.16 crore, which is 7.82 percent of the cumulative advances of Rs 38938.75 crore. In comparison, Jammu with advances of Rs 31495 crore has an NPA of Rs 1613.42 crore, which is 5.12 percent of the overall outstanding.

Srinagar and Jammu cities are the two main business hubs. Given their inter-dependence that has evolved over the decades, they both exhibit the same situation - low credit appetite: Srinagar at 51.5 percent and Jammu at 30.9 percent. It was almost the same as that of last fiscal. Jammu city, it may be recalled here, has double deposits in comparison to Srinagar city. Srinagar city's bad asset percentage is two times that of Jammu.

Underperformance by Banks

The banking sector has underperformed on its yearly credit plan. It had planned to lend Rs 44630 crore but ended up advancing only Rs 30688 crore (Rs 17329.49 crore in Kashmir and Rs 12533.46 crore in the Jammu region), both in priority and non-priority sectors. Interestingly, Rs 20529 crore of this - 64.78 percent - was advanced by Jammu and Kashmir Bank alone.

In the last banking sector meeting that the Chief Secretary Dr. Arun K Mehta presided over, the banking sector offered interesting reasoning for under-achievement in the last financial year. In the housing sector, one of the happening sectors across Jammu and Kashmir, the banks could advance only Rs 1041.5 crore against a target of Rs 2843 crore. Listing the reasons, the banks said site-plan is a pre-requisite for disbursement of loans. "It usually takes months to obtain NOCs from various departments individually while applying for municipal permissions," the banking sector put it on record in black and white. It said that the borrowers do not have the pieces of land in their names. "In rural areas and old towns, mutations of titles have remained pending since (sic) generations, and owing to disputes on ownerships, people find it cumbersome to get the extract of revenue records and transfer the land titles," the documents added. Besides, Kashmir lacks an interest in vertical housing.

Conclusion

Smart Corporate Governance Practices remove mistrust amongst different stakeholders and are essential for the survival and sustainability of the Bank business. The people of J&K have not only financial relations but also invested in the emotional equity of the Bank. Therefore, the need of the hour is that the State Administrative Council must take cognizance of the public sentiments. However, the Business Model adopted may be revisited to see diversifications-expansions-processes-systems-controls with due technology interventions for infusing further dynamism in the Bank's business operations.

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