Corporate reforms

It is an old rule that every new public sector bank chief begins with a clean-up — in effect signalling that he or she has inherited a mess. The shock quarterly loss announced by State Bank of India falls into this set pattern. It is the first quarterly earnings after Rajnish Kumar took over. The lender slipped into the red for the first time in 19 years as more bad loans showed up in the books while the bond portfolio recorded massive losses.

This newspaper has often argued that the bad loans problem is as much a failure of corporate governance as it is of the economic cycle. Many banks have had to recognize the true state of the lending portfolio only because they were forced to do so by the central bank. It is worth asking why bank boards—and especially the audit committees—have been silent. The same question needs to be posed to corporate boards which signed off on massive leverage.

Corporate governance reforms sometimes sound like a vacuous phrase used to impress conference audiences—but they lie at the heart of so many of our economic challenges.

END