

## ICICI Bank, Axis Bank Troubles Highlight Need For Better Risk Management, S&P Says

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Indian banks urgently need to strengthen their governance practices and improve risk management.

That's the word from S&P Global Ratings amid rising governance issues at ICICI Bank Ltd. and Axis Bank Ltd. -- two of India's largest private sector lenders.

As a number of banks in India confront serious governance and risk issues, S&P said the "tone at the top" is crucial. "Leadership groups in Indian banks need to ensure that they enhance the risk culture, reputation, and financial strength of banks," S&P's Credit Analyst Michael Puli said in a statement.

S&P is the second major rating agency to raise red flags on the recent spate of issues plaguing the Indian banking sector. Earlier in the week, Fitch Ratings expressed concerns about the [allegations of nepotism](#) against India's second-largest private lender.

"The ICICI Bank board has offered full support to the leadership team. However, if allegations against the management prove to be true, they could hit the bank's reputation and expose it to legal and financial risk," S&P said.

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Meanwhile, [Axis Bank](#) has been in the news over the early departure of its CEO Shikha Sharma after the Reserve Bank of India asked its board to reconsider the fourth three-year term it gave to her last year.

"A smooth transition and continuity in management will be important for the bank," the report said, given the ongoing restructuring within the bank to address its stressed assets problem. Axis Bank's gross non performing ratio is at 6 percent as of the last reported quarter, close to ICICI Bank's 8 percent. However, this is much higher than peer HDFC Bank's 1 percent, the report said.

Corporate governance is not a problem just for the banking sector of for India, said former SEBI Chief M Damodaran in an [interview](#) yesterday. Boards have become "non-performers" and haven't challenged managements enough, he said.

"It is about time that the board of directors understand that their job is to keep the management honest. If the board doesn't understand the role and perform that role, then stakeholders will lose confidence in the board."

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