Corporate governance of private domestic banks in Sri Lanka: The current state

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Though competitive and robust banks have the ability to intermediate savings and investment efficiently, soundness and competency of banks have been questioned due to sudden failures of banking institutions throughout the world. Established global level banks, such as Northern Rock in UK, JP Morgan in USA, Banco Latina in Venezuela and, at a local level, Pramuka Bank, a specialised bank in Sri Lanka, have failed. Practitioners and researchers who were investigating the bank failures identified better corporate governance as a useful tool to improve the financial soundness of banks. In 2002, the Central Bank of Sri Lanka (CBSL) issued a voluntary code of corporate governance to mark the beginning of corporate governance for the banking sector. It was made mandatory for all banks in January 2008. The objective of the study is to critically examine the correlation between the corporate governance codes and the development in compliance by Private Domestic Banks (PDBs) in Sri Lanka. The methodology of the study revolves around computing the Corporate Governance Compliance and Disclosure Index (CGCDI), taking all corporate governance variables into account. Using CGCDI scores, level of compliance by banks will be determined. The period taken for analysis is 2004 to 2015. In relation to CGCDI, the level of compliance in PDBs of Sri Lanka has steadily improved from 2004 to 2015 though the rate of improvement has been volatile. When the adoption of corporate governance principles was not mandatory, the level of compliance had been well below 50 percent. The key to improvement is when compliance is made mandatory.

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