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EDITORIAL ANALYSIS

Permissible Is Not the Same as Worthy: The HDFC Bank Governance Test

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Permissible Is Not the Same as Worthy: The HDFC Bank Governance Test

📰 **The Economic Times** 31 August 2026 **GS3** **GS4**

INTERVIEW ANGLE

"The piece distinguishes compliance, was a rule broken, from governance, was the decision worthy of the institution. Can a regulator ever enforce the second standard, or must it come from inside?"

Source: **Original editorial ↗** The Economic Times

Every fact web-verified against primary sources

THE LIFT LINE

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Most governance answers equate governance with compliance architecture: independent directors, audit committees, SEBI's LODR regulations, the Kotak committee. That answer describes the plumbing and misses the water.

This piece hands you the sharper frame, and it is examinable in two papers at once. For **GS3**, it pairs with today's news of the HDFC Bank CEO transition and the RBI approval process under **Section 35B of the Banking Regulation Act, 1949**, letting you discuss banking governance with a live, systemically important example. For **GS4**, the compliance-versus-worthiness distinction is a ready-made ethics scaffold: it is the corporate version of the law-versus-conscience question, and the piece's observation that **the real danger arrives when performance is strong and the board stops asking difficult questions** is a one-line case study in moral complacency.

BACKGROUND AND CONTEXT

The trigger. Sashidhar Jagdishan, MD and CEO of **HDFC Bank**, announced on **August 29, 2026** that he will not seek reappointment when his term ends on **October 26, 2026**. The succession now runs through the **Reserve Bank of India's approval process**, covered in today's companion article. The bank's own notification recorded that he reiterated his decision **"despite persuasion"**.

The institution. HDFC Bank is India's largest private sector bank, a **Domestic Systemically Important Bank** in bucket 2 of the RBI's 2025 list, and the product of the **July 2023 reverse merger** with HDFC Ltd. It has long been treated as the governance benchmark of Indian banking, which is precisely the standard the piece measures it against.

The accumulated questions, with their status stated honestly. The columnist lists episodes across different fronts and is explicit that **they do not carry the same evidentiary status: some are allegations, some are disputed, and some have been reviewed and closed**. They include GPS-linked auto-loan mis-selling; alleged AT1 bond mis-selling involving Gulf operations; legacy asset-quality concerns after the merger; fund mis-selling allegations; workplace-culture concerns; a trust-related controversy; the **former chairman's resignation citing values and ethics**, which an external legal review found unsubstantiated; and the **MSRDC deposit episode**, in which the board found **"business overreach"** without mala fide intent and imposed **penalties of Rs 1 lakh on three senior executives**.

THE ANALYSIS

The premise: trust raises the bar. Institutions that command exceptional trust must accept exceptional scrutiny. Having set the benchmark, HDFC Bank must keep raising it; for a bank entrusted with other people's money, even the whiff of misconduct matters. The piece's standard is internal, the bank measured against its own claimed bar, not against a peer's failures. "What about the other bank" is expressly rejected as a defence.

The boardroom resignation, and why a legal review is not closure. The former chairman's exit is singular because it came from inside. The external review found his concerns unsubstantiated, but the columnist's point is procedural: outside the boardroom and the regulator, **nobody learnt what was found, what was learnt or what changed**. A governance question is closed by disclosure and visible change, not by a privileged legal opinion.

The Rs 1 lakh problem. The MSRDC finding, overreach without mala fide intent, produced penalties that the piece treats as the tell: **for a bank of this stature, a Rs 1 lakh penalty risks pushing the matter under the carpet and reducing accountability to theatre**. The deeper questions are whether the board knew, questioned or looked away, and whether off-framework accommodation had become accepted practice.

Where poor governance actually lives. Rarely in visible misconduct. It sits in aggressive targets, clever mis-selling, commercial expediency, what never reaches the board, how dissent and whistleblowers are treated, and what senior executives are allowed to get away with. **The real danger comes when performance is strong, the CEO is admired and the board stops asking difficult questions.**

The larger-than-life CEO test. The hardest governance act is challenging a high-performing, high-gravitas chief executive whose stature makes scrutiny look like disloyalty. This is the standard charge against promoter-led boards, but institutional ownership offers no immunity. The piece reads the bank's "despite persuasion" notification against itself: praise intended, but it portrays a board persuading its CEO to stay rather than one demonstrating that **succession was firmly in the board's hands**.

What the RBI cannot do. The regulator can set capital, liquidity, tenure and disclosure rules. **It cannot regulate institutional instinct.** Most consequential failures begin between what the rulebook permits and what a well-governed institution should never consider acceptable, and that space belongs to the board alone.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

THE EVENT:

Sashidhar Jagdishan announced on August 29, 2026 that he will not seek reappointment as HDFC Bank CEO.

His term ends on October 26, 2026; the succession requires RBI approval.

HDFC Bank's board reported penalties of Rs 1 lakh on three senior executives in the MSRDC episode.

The board's finding in that episode was business overreach without mala fide intent.

THE REGULATORY ARCHITECTURE:

Section 35B of the Banking Regulation Act, 1949 requires RBI approval for bank CEO appointment, reappointment and removal.

The RBI's April 2021 governance circular caps promoter-CEO tenure at 15 years and professional-CEO tenure at 12.

The 2021 circular sets an upper age limit of 70 for bank MD and CEO positions.

HDFC Bank is a Domestic Systemically Important Bank in bucket 2 of the RBI's 2025 D-SIB list.

The 2025 D-SIB list keeps SBI in bucket 4 and ICICI Bank in bucket 1.

HDFC Ltd merged into HDFC Bank with effect from July 1, 2023.

THE GOVERNANCE VOCABULARY:

Compliance asks whether a rule was broken; governance asks whether the decision was worthy of the institution.

AT1 bonds are perpetual additional tier-1 capital instruments that absorb losses before equity is exhausted in a resolution.

A fit-and-proper test is the RBI's assessment of a candidate's suitability for a bank board or CEO role.

> *The columnist states plainly that the listed episodes* **do not carry the same evidentiary status***: some are allegations, some are disputed, and some have been* **reviewed and closed***. Reproducing the list as a set of established findings would be wrong, and the same discipline applies in an answer: cite the episodes as questions the institution faced, not as verdicts against it.*

THE DEBATE

The scrutiny is warranted. The benchmark institution must be measured against its own bar. A boardroom resignation on grounds of values, answered by a privileged review nobody outside can learn from, is not closure. Token penalties for senior overreach teach the organisation what accountability really costs. And the concentration of admiration around a successful CEO is precisely the condition under which boards historically stop challenging.

The scrutiny is overdone. Aggregating allegations of different weight into a single narrative manufactures an indictment that no individual episode supports. Independent review is the correct instrument and it returned a finding; refusing to accept any exoneration makes governance an unfalsifiable charge. Proportionate penalties for conduct without mala fide intent are what a mature framework looks like, and the bank's operating record remains the sector's reference point.

Where the truth likely sits. The piece is best read not as an indictment but as a standard-setting argument: the question is not whether HDFC Bank broke rules, on the record it largely did not, but whether the mechanisms that made it the benchmark, hard internal challenge, consequences with weight, and candour about what reviews find, still carry the same force at its current scale. That question is answerable only by the board's conduct through the succession, which is why the CEO transition, routine in itself, is the test.

HOW TO THINK ABOUT THIS

Separate three layers whenever a governance question appears, corporate or public.

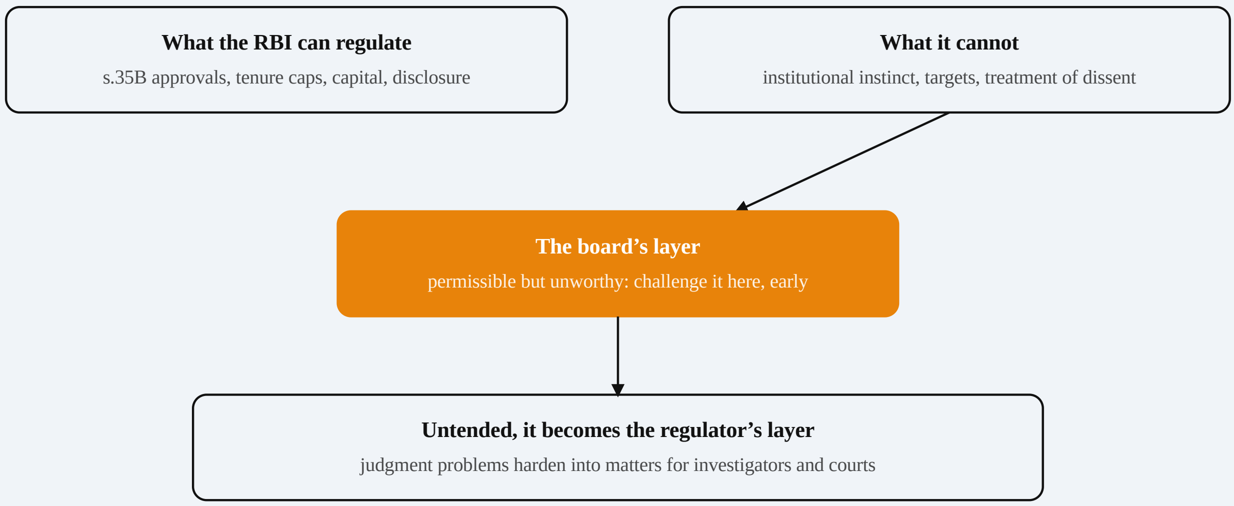
The rule layer. What does codified law require, and was it met? Here: Section 35B, the 2021 tenure circular, LODR disclosure. Necessary, and insufficient.

The judgment layer. What decisions were permissible but unworthy? This is where mis-selling within product law, token penalties and unexplained reviews live. The board owns this layer; the regulator cannot reach it in time.

The culture layer. What behaviour does the institution reward, and what happens to dissent? Culture is the leading indicator; rules are the lagging one.

An answer that walks these three layers, and names which actor owns each, will outscore a recitation of committee reports on any governance question, including the GS4 case study where a high-performing subordinate cuts corners.

DIAGRAM-IN-WORDS



Strong CEO performance weakens the middle box exactly when it matters most, because scrutiny starts to look like disloyalty. The strongest boards intervene while a problem is still a matter of judgment.

TAKEAWAY BOX

Compliance asks whether a rule was broken. Governance asks whether the decision was worthy of the institution.

Section 35B, Banking Regulation Act, 1949 for CEO appointments; RBI April 2021 circular, 15-year promoter-CEO and 12-year professional-CEO caps, age limit 70; HDFC Bank in D-SIB bucket 2 on the 2025 list, SBI bucket 4, ICICI bucket 1; HDFC Ltd reverse merger effective July 1, 2023; Jagdishan announcement August 29, 2026, term ends October 26, 2026.

Three layers, three owners: codified rules (regulator), permissible-but-unworthy judgment (board), culture and dissent (leadership). Most banking failures incubate in the middle layer, which tenure caps and fit-and-proper tests cannot reach; instruments that can are board challenge, proportionate consequences, protected whistleblowing and disclosure of what reviews found.

Can a regulator ever enforce worthiness, or only permissibility? And if only the latter, what makes a board actually use its power against a successful CEO?

Sources: The Economic Times, RBI, Business Standard

KEY ARGUMENTS AT A GLANCE

Writing in The Economic Times, Srinath Sridharan argues that institutions commanding exceptional trust must accept exceptional scrutiny, and that the accumulating questions around HDFC Bank, culminating in the CEO's decision not to seek reappointment, test whether the board can hold India's benchmark bank to the standard it claims for itself rather than to the regulatory minimum.

✓ SUPPORTING

- Questions have accumulated across fronts of differing evidentiary status, some allegations, some disputed, some reviewed and closed: GPS-linked auto-loan mis-selling, alleged AT1 bond mis-selling in Gulf operations, legacy asset-quality concerns after the HDFC Ltd merger, fund mis-selling allegations, workplace-culture concerns, a trust controversy, the former chairman's resignation citing values and ethics, and the MSRDC deposit episode.
- The former chairman's resignation is singular because it came from inside the boardroom; the bank's external legal review found his concerns unsubstantiated, but outside the boardroom and the regulator the world is little wiser about what was found or what changed, and a legal review cannot by itself close a governance question.
- In the MSRDC episode the board found business overreach without mala fide intent and imposed penalties of Rs 1 lakh on three senior executives; for a bank of this stature such a penalty risks reducing accountability to theatre, and the sharper question is whether the board knew, questioned or looked away.
- The harder test is confronting a larger-than-life CEO whose stature makes scrutiny look like disloyalty; institutional ownership offers no immunity from this, and the bank's own notification, that the CEO reiterated his decision despite persuasion, suggests a board persuading its CEO to stay rather than demonstrating that succession was firmly in its hands.

⚠ COUNTER

The defence is that the episodes do not aggregate into an indictment: several were examined and closed, the external review was independent and found the resignation concerns unsubstantiated, penalties for overreach without mala fide intent are proportionate by design, and HDFC Bank's operating record, risk discipline and disclosure practices remain the sector's reference point. Poor governance cannot simply be inferred from the volume of questions an institution of this size attracts, and whataboutery cuts both ways: singling out the best-governed large bank because it is the most visible sets a standard no institution can meet.

→ **WAY FORWARD**

Re-earn the governance premium rather than assert it: tougher board challenge to the most powerful executives, cleaner incentives, credible consequences that are proportionate to stature, disclosure that lets outsiders learn what a review found and what changed, and a succession process the board visibly owns. The test the piece sets is cultural: an institution where people ask not merely whether something is permissible but whether it is worthy of the institution.

✍️ MAINS ANSWER FRAMEWORK

QUESTION

Corporate governance failures rarely begin as violations of law; they begin in the space between what rules permit and what a well-governed institution should consider acceptable. Discuss with reference to the banking sector, and examine the respective roles of boards and the regulator. (250 words)

INTRODUCTION

Banking rests on leveraged trust: a bank deploys depositors' money on the strength of its reputation for prudence. Corporate governance in banking is therefore not a compliance checklist but the mechanism by which that trust is continuously earned.

The most consequential failures, from Global Trust Bank to Yes Bank to Punjab and Maharashtra Co-operative Bank, began not as detected illegality but as conduct that rules did not yet prohibit.

BODY

The distinction between compliance and governance is analytically precise. Compliance asks whether a rule was broken; governance asks whether a decision was worthy of the institution taking it.

The space between the two is where risk incubates: aggressive targets, mis-selling that stays within product law, commercial expediency in client accommodation, information that never reaches the board, and the treatment of dissent and whistleblowers. Boards matter most in exactly this space, because the regulator arrives only after conduct crosses a codified line.

The Reserve Bank has progressively hardened the codified layer: Section 35B of the Banking Regulation Act, 1949 makes the appointment, reappointment and removal of bank CEOs subject to RBI approval, and the April 2021 governance circular capped promoter-CEO tenure at 15 years and professional-CEO tenure at 12, with an age limit of 70. Yet tenure caps and fit-and-proper tests cannot regulate institutional instinct.

Two board-level vulnerabilities recur. First, the successful-CEO problem: sustained performance converts scrutiny into apparent disloyalty, weakening challenge precisely when concentration of authority is greatest.

Second, proportionality of consequence: token penalties for senior overreach signal that accountability is theatre, corroding the internal norm that rules exist to protect. Independent directors, empowered audit and risk committees, protected whistleblower channels and disclosure of what internal reviews actually found are the instruments that operate in the uncodified space.

CONCLUSION

The regulator can set the floor; only the board can set the standard. A banking system as concentrated as India's, where a handful of systemically important banks hold public trust at scale, needs boards that intervene while a problem is still a matter of judgment, before it becomes a matter for a regulator, an investigator or a court.

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