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THE DOWNFALL OF RANA'S YES BANK

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In the recent years, banks are in the limelight for all wrong reasons. From not complying with RBI directions to fraudulent LOUs, there have been more and more blunders tumbling out from Indian banks. One such gaffe in Yes bank shook the Indian banking system, showing serious lapses in risk management in banks and failure of RBI as a supervising authority. Yes bank was founded by Ashok Kapur, his brother in law Rana Kapoor and Harkirat Singh in the year 2003 and its operations was started on 21st January 2004. Yes Bank Ltd runs three units – Yes Asset Management Services, Yes Capital and Yes Bank. Yes bank had its maiden IPO in 2005. It was ranked number 1 bank in the Business Today-KPMG Best Banks Annual Survey 2008. Yes bank was the first Indian bank to be ISO 14001 certified for Environmental Management System and recognized as a Climate Disclosure Leader globally. Yes bank was the first institution globally to receive funding through IFC's Managed Co-Lending Portfolio Programme and the first Indian bank to raise loan under IFC's A/B loan facility. Yes bank announced the listing of the bank's bond issue under its maiden $1 billion MTN programme on Global Securities Market. The bank, in no time became the 5th largest private bank (market capitalization) in India. In 2014, Yes bank tied up with TRANSFAST, enabling customers to directly deposit money through online platform supported by NPCI. It was one of the first banks to pioneer green infrastructure and issue green bonds for the same. It had 1050 branches, 1724 ATMs. Despite having a long list of credentials, the death of Ashok Kapur in 2008 changed the bank's path. After his death, Rana Kapoor took over. His reign tipped off an ugly spat among the board members of the bank who were also his family members.

Why Yes bank collapsed?

• Loans not repaid is a foremost concern of most banks in India. These unpaid loans are called Non-Performing Assets (NPA). The crisis at YES Bank started when there was huge rise in NPA. The Yes Bank gave loans to companies which were not doing well in their businesses.

Some of the defaulters to whom the bank had advanced funds included IL&FS, Anil Ambani group, CG Power, Cox & Kings, Café Coffee Day, Essel group, Essar Power, Vardaraj Cement, Radius Developers, and Mantri Group.

Yes Bank suffered a notable doubling in gross non-performing assets over April-September 2019 to Rs 17,134 crores. Owing to this, Yes Bank was not able to increase its capital to shore up its balance sheet.

• The bank has also experienced severe governance issues and practices from the death of Ashok Kapur, which had led to a sturdy decline of the bank. For instance, the bank fudged their NPAs to Rs 3,277 crore in 2018-19. This made the RBI to appoint R Gandhi, a former Deputy Governor, to the board of the bank. Another instance is where statutory liquidity ratio of YES bank was breached the RBI’s minimum requirement and so was its liquidity coverage ratio. The bank has thus provided Rs 86 crore as a penalty. Yes Bank exhibited many such instances.

Bad corporate governance was noticeable in the Madhu Kapur case, the quarterly results, the NPA divergence, etc.

• The loan book of Yes Bank had grown from Rs. 55,000 crore in FY 2014 to Rs. 2, 41,000 core in FY 2019. In general the other bank's credit during the above period grew only by about 10 per cent, it strange to notice that YES Bank’s loan book grew by about 35%.

In the last five years, not only the loan book grew by over four times, but deposits failed to keep pace with loan growth. The loan book grew to Rs 2,24,505 crore as of September 2019, while deposits were at only at Rs 2,09,497 crore.

• The bank tried to connect with PE (Private Equity) firms in order to raise its capital. "These investors did hold discussions with senior officials of the Reserve Bank although for various reasons eventually didn't infuse any capital," says RBI.

The Yes Bank Crisis - What happens now?

After taking into consideration of these developments, the Reserve Bank imposed limits on cash withdrawals and lending operations. To restore confidence in depositors and investors, RBI told the country's largest state-owned bank, State Bank of India, to buy a 49% stake in Yes Bank and hold on to at least 26% for the next three years.

While this problem is still to be settled, another decision by the RBI created an alarm among investors of Yes Bank. The RBI stated that the so-called Additional Tier 1 (or AT1) capital that was raised by Yes Bank would be entirely written off. In a bank, there are different hierarchies of capital .The top tier or T1 has the “equity” capital — that is, money in by the owners and shareholders. It is the riskiest category of capital. Then there are different types of bonds (such as AT1 and AT2), which a bank floats to raise money from the market. What has created a problem is that RBI has said that capital raised via AT1 bonds, which is in the same tier of capital as equity (i.e., Tier 1), will be written off as much as Rs 10,800 crore fall under this category, and many popular mutual funds like Franklin Templeton, UTI Mutual Fund, SBI Pension Fund Trust, etc. stand to lose out. Indirectly, a lot of common investors too will lose out on their investments.

Conclusion:

Even though Indian financial system had faced many stumbling blocks before, Yes bank fiasco worried depositors, public and government alike as it was a major private bank. The government failed to bring about a permanent solution to the problem which was proved in the PMC Bank crisis which took place after the Yes bank mess. The problems that plagued both Yes bank and PMC bank are of similar nature like continuous lending, giving loans to a select few, nexus among borrowers of same bank to name a few.SBI taking over a stake in Yes bank is only a short term strategy. Hence, it was proved that such a step without any abiding solution will never stop future banking disasters.

The catastrophe at Yes Bank is not a expression of slowing economic growth and muted credit demand. It is another example of clear ignorance to the most dangerous risk that every bank faces-the threat of operational risk. Mishandling of credit and market risks may result on loss of revenue or profit.

It is time to strengthen banks' boards by filling them with skilled people with experience in banking and finance. The government must make auditors and rating agencies responsible by levying them with heavy penalties for errors. A sound corporate governance structure with professional management may save the bank from collapse and regain investor confidence.