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A Study on Yes Bank Crisis

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Abstract:*Banks play a pivotal role in the economic growth of the country. Failure of any private sector bank or public sector bank, irrespective of the ownership can impact everyone. Hence, neither Government of India nor Reserve Bank of India (RBI) will never let a bank facing troubles in its financial position to fail. One of the major private banks in India 'Yes Bank Ltd', has been facing the problem of rapidly deteriorating financial position. This necessitated Reserve Bank of India (RBI) to take immediate actions to protect depositors money. This Research paper covers multiple dimensions of Yes bank's journey.*

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I. Introduction

Yes bank is an Indian private bank started its journey in 2004. It is one of the new generation private sector banks that were allowed to start banking operations by Reserve Bank of India in the post-liberalisation era. It was formed under the leadership of Rana kapoor and Ashok kapur. In 2008, Ashok Kapur's life came to a tragic end when he was killed by terrorists in Mumbai. Since then, Rana Kapoor took a leadership position atthe bank.Under Rana's leadership, Yes Bank took small steps in building its corporate lending segment and focused on sectors like real estate, pharmaceuticals, renewable energy, electricals and media.

Yes bank was engaged in high-risk lending, as it was providing loans to those who could not raise funds elsewhere. He followed an aggressive route to expand theloans division, he was also able to balance the requirement of businesses with the bank's need for prompt repayments. He used a simple strategy to provide big loans to those who asked for it but made borrowers pay a very high fee upfront in the range of 2 to 10 percent of the sanctioned amount. He also charged interest rates of up to 16% per annum, around 3% higher than the rates of competitors. The assets books of Yes bank showed promising growth until 2017 , but then the problem of Non performing assets(NPA's) came into the highlight.

Everyone expected that Yes bank to be one of the largest private sector banks in India. Investors, customers everyone were happy, and this was until RBI refused to let Rana continue being the CEO. The company's stock price started to decline. Investors were clueless as to why Rana was being ousted. Yes Bank's stocks started to shrink. There were speculations that the company was underreporting bad loans. In order to improve the situation, a new CEO was appointed along with a change in management by RBI. But, Yes Bank was destined to lose, despite optimistic assessments.

Meaning of Bailout:

A bailout is when a business, an individual, or a government provides money and/or resources (also known as a capital injection) to a failing company. These actions help to prevent the consequences of that business's potential downfall which may include bankruptcy and default on its financial obligations. Businesses and governments may receive a bailout which may take the form of a loan, the purchasing of bonds, stocks or cash infusions, and may require the party to reimburse the support, depending upon the terms.

Regulatory framework for Banks:

Basel Committee on Banking Supervision(BCBS):

Basel Committee on Banking Supervision was established in 1974, whose primary objective is to monitor international bank performance and supervise them to achieve standards established by the Bank for International Settlements(BIS). BIS is an international committee that aims to promote global monetary and financial stability through the coordination of global central banks and their monetary policy efforts. Basel committee has introduced the bank capital management system called as Basel capital accord in 1988. The purpose of this accord is to ensure that the financial institutions have enough capital to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking systems. There are 3 basel accords – Basel l, Basel ll, Basel lll.

Basel l:

Basel l was established in 1988, which states that central banks of members should maintain a minimum capital. The capital composition according to Basel accord l consists of 2 components

- Shareholder's equity and retained earnings.
- Additional internal and external sources of banks.

The primary objective of this accord is

- To ensure the minimum required capital levels in an international banking system which is 8% of Risk weighted assets(RWA).Banks can measure risk in which assets are categorized into four groups 10%, 20%, 50% and 100%. This categorization represents proportion of assets that are risk free and proportion that is associated with risks. For instance, an asset backed by collateral would carry lesser risk when compared to personal loans, which have no collateral.
- To level the playing field in terms of competition to avoid the capital inadequacy problems.

India adopted Basel 1 guidelines from 1999.

Basel ll:

Basel ll was introduced in the year June, 2004 and it is a refined version of Basel l. Basel ll is known as "The International convergence of capital measurement and capital standard". The main aim of this accord is to allocate the capital in an optimized manner to protect against various types of risks. Basel ll is made on three parameters, which committee calls it as pillars.

- Pillar l - Minimum capital requirements

Capital of Basel ll has been divided into two tiers as Tier l and Tier ll. In Tier l, 50% of capital is allocated to equity and known for reserves. In Tier ll, remaining 50% for general provisions and unknown reserves. Minimum Capital adequacy ratio needs to be maintained at least 8%.

- Pillar ll – Supervisory Review process

This pillar acts as powerful technique to control risk. Second pillar aims at developing and use of better risk management techniques in monitoring, managing and controlling all three types of risks that banks face i.e., credit, market and operational risks for the long run.

- Pillar lll – Market Discipline

BCBS plans to promote market discipline by disclosing key facts by banks to public, which enables market participants to know about the essential information concerned with capital, risk exposure and scope of application. Pillar III has ordered banks to provide the details in every 6 months and international banks every quarter. Bank's objectives and policies needs to be revealed once in a year.

Basel lll:

Basel lll was introduced in the year 2010, in response to financial crisis 2008. In developed economies a need was felt to strengthen banking system which were under capitalized, over leveraged and had a great reliance on short term funding. The main objectives are

- To increase and improve the disclosure and transparency in the system.
- Improve risk management strategies and governance of banking sector.
- Enhancing the ability of the banking sector to absorb the ups and downs of any financial and economic stress.

Basel lll aims at making the banking activities more capital intensive for instance trading book activities. It aims to promote a more resilient banking system by focusing on four parameters. They are capital, leverage, funding and liquidity.

- Capital - The minimum capital ratio is 12.9%, where the Tier l capital comprises of 10.5% of its total risk weighted assets, while Tier ll capital comprises of 2% of risk weighted assets.
- Leverage- This was introduced in order to safeguard against excessive buying, by ensuring that the banks have sufficient liquidity during the period of financial stress. Tier l capital was capped at 3%.
- Funding & Liquidity - Basel lll has introduced Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for funding liquidity were prescribed by the Basel Committee for achieving two separate but complementary objectives for liquidity risk management.

Need for Study:

The present study would investigate the detail of 'Yes bank' with greater focus on the Indian banking sector.

Objectives:

- To analyze the reasons that led to downfall of 'Yes bank'.
- To discuss the importance of proper supervision and control systems in banks to mitigate loss.
- To examine the role of RBI as a regulating authority in Yes bank's fiasco.

Research Methodology:
Data is collected from primary and secondary source. Primary data is collected through well structured questionnaire. The collected information was reviewed and consolidated for the purpose of analysis. The analysis of the data was further processed by non-statistical tools. Some data was collected from secondary source. Secondary sources comprises of Research publications, Newspapers, Data mining (exploring through internet). Data have been collected in accordance with the objectives which are mentioned above.

Important terms:
1. CASA (Current account Savings account) ratio : The percentage of total bank deposits that are in a CASA is an important metric to determine the profitability of a bank. The CASA ratio indicates how much of a bank's total deposits are in both current and savings accounts. The ratio can be calculated using the following formula:
CASA Ratio = CASA Deposits / Total Deposits
A higher ratio means a larger portion of a bank's deposits are in current and savings accounts, rather than term deposit accounts. This is beneficial to a bank because it gets money at a lower cost. Therefore, the CASA ratio is an indicator of the expense to raise funds and, therefore, is a reflection of a bank's profitability or likelihood of generating profit.
2. CET-1(Common Equity Tier 1) ratio: CET1 is a measure of bank solvency that gauges a bank's capital strength. Common Equity Tier 1 (CET1) is a component of Tier 1 capital that consists mostly of common stock held by a bank or other financial institution. It is a capital measure that was introduced in 2014 as a precautionary means to protect the economy from a financial crisis.
Common Equity Tier 1 Ratio = Common Equity Tier 1 Capital / Risk-Weighted Assets.
3.CRAR (Capital to Risk weighted Asset) ratio **:** Capital to Risk weighted Asset Ratiois also known as CapitalAdequacy Ratio (CAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. The capital adequacy ratio is calculated by dividing a bank's capital by its risk-weighted assets. The capital used to calculate the capital adequacy ratio is divided into two tiers.
CRAR = (Tier 1 Capital + Tier 2 Capital)/ Risk Weighted Assets.
A bank with a high capital adequacy ratio is considered to be safe and likely to meet its financial obligations.
Tier 1 capital consists of equity capital, ordinary share capital, intangible assets and audited revenue reserves and is used to absorb losses and does not require a bank to cease operations.
Tier 2 capital comprises unaudited retained earnings, unaudited reserves and general loss reserves and absorbs losses in the event of a company or winding up or liquidating.
Risk-weighted assets are used to determine the minimum amount of capital that must be held by banks and other financial institutions in order to reduce the risk of insolvency.
4. Net NPA (nonperforming asset) ratio: A nonperforming asset (NPA) refers to a classification of loans or advances that are in default or in arrears. Gross NPA represents the quality of loans granted by the banks .Gross NPA includes the assets such as sub-standard, doubtful and loss assets. Net NPA can be obtained by deducting provisions from Gross NPA.
Net NPA ratio=Net NPA/(Gross advances- Provisions).
5.Provisioning Coverage Ratio**:** Provisioning Coverage Ratio (PCR) refers to the prescribed percentage of funds to be set aside by the banks for covering the prospective losses due to bad loans. Earlier there was a bench mark Provisioning Coverage Ratio (PCR) of 70 percent of gross NPAs was prescribed by RBI, as a macro-prudential measure. Though, there is no such prescription now, it is good for the banks to go for higher PCR when they are making good profits, as building up 'provisioning buffer' is useful when non-performing assets (NPA) of a bank rise at a faster.
Provision Coverage ratio= (Equity- net NPA) / (Total assets – intangible assets).

Reasons for Yes Bank crisis:
1. **Bad loans :** According to central's bank's asset quality reviews in 2017 and 2018, Yes bank, a private sector bank ran into a trouble which led to sharp increase in its impaired loans ratio and it has struggled to raise the capital that it needs to stay above regulatory requirements as it battles high levels of bad loans and it was facing various uncovered government lapses that resulted in complete change in management. Big defaulters to whom the 'Yes bank' had given loans include IL&FS, Anil Ambani group, CG Power, Cox & Kings, Café Coffee Day, Essel group, Essar Power, Vardaraj Cement, Radius Developers, and Mantri Group.
2. **Liquidity:**Money deposited by the customers is the backbone of any banking industry. The bank was witnessing withdrawal of deposits from their customers and hence the bank was going through severe outflow of liquidity.
3. **Deteriorating Financial Position** : Over last few years 'Yes Bank' has undergone a steady decline in its financial position due to its inability to raise capital and to address potential loan losses and resultant

downgrades, triggering invocation of bond covenants by investors, and withdrawal of deposits. The bank was making losses and inadequate profits over last few years.

4. **Governance issues &regulatory restructuring:**In recent years, bank has experienced a serious governance issues and practices which led to steady decline of the bank. RBI asked Rana kapoor the co-promoter to step down his position. RBI did not take any prompt corrective action framework despite of continued poor performance. In recent years, the central bank had flagged several concerns including a distinct divergence between the bank's reported financial statements and the RBI's findings. The bank reported Non-Performing Assets to the tune of Rs 3,277 crore in 2018-19.That was prompted RBI to dispatch R Gandhi, a former Deputy Governor, to the board of the bank.

5. **Sluggish economic sector** :According to Fitch Ratings, there is a 11 year low slow economic growth of which Indian authorities have been struggling to contain a crisis among shadow lenders, less tightly regulated lending and lending for riskier businesses, which has choked credit to consumers and small businesses. 'Asia-Pacific Emerging Market Banks' in its 2020 Outlook Fitch maintained a negative jolt on Indian banks, based on its expectations of continued weak performance despite trends showing the trough might have passed, and ongoing capital requirements. RBI said in its statement that it had no alternative but to seize Yes Bank in the absence of a credible revival plan, and in public interest and the interest of the bank's depositors.

6. **False Assurance** : The Reserve Bank of India was in constant touch with the Yes bank's management to find out the ways to strengthen its balance sheet and liquidity position. Yes bank management said Reserve bank that it was in discussions with numerous investors and they were likely to be successful. But in reality, there was no concrete proposal from investors to place a sort of the money that the bank required to survive and grow.

7. **High withdrawals :** Yes Bank's financial condition dissuaded many depositors from keeping funds in the bank over a longer term. The bank showed a steady withdrawal of deposits, burdening its balance sheet and adding to its woes. At the end of September 2019, the bank had a deposit book of Rs 2.09 lakh crore.

8. **Non-serious Investors** : RBI says the investors did hold any discussions with senior officials of the Reserve Bank due to various reasons and eventually did not infuse any capital. It clearly shows that the investors are not serious enough to put the capital into the bank. In fact, RBI's permission is a must to increase the size and amount of capital which would have been given the new investors.

Key performance indicators of Yes Bank:

Ratios	2017	2018	2019	2020
CASA ratio	36.3%	36.5%	33.1%	26%
PCR ratio	46.9%	50%	43.1%	72.7%
CET-1 ratio	11.4%	9.7%	8.4%	6.3%
CRAR ratio	17%	18.4%	16.5%	8.5%
Gross NPA	1.9%	1.4%	3.3%	16.8%
Net NPA	0.8%	0.6%	1.9%	5.03%

Interpretation:

- CASA ratio should be higher for any bank to be profitable. But, in case of 'Yes bank' we could see continuous decline in CASA ratio which in a not good indicator.
- As we could see the Capital adequacy ratio(CRAR) has been declining from past few years i'e., from 17% in 2017 to 8.5% in 2020, which implies that the bank's ability to meet its obligations is reduced.
- There is an enormous increase in Gross NPA from 1.9% in 2017 to 16.8% in 2020 and same could be observed in Net NPA from 0.8% in 2017 to 5.03% in 2020.
- CET-1 ratio is comparatively better from 2017 to 2019. But in 2020, it stood at 6.3% which is lower than the RBI's minimum requirement of 8% and basel norms.
- Yes bank was maintaining lower amount of PCR ratio at 46.9% in 2017 to 43.1% in 2019 which is lower than the RBI's minimum requirement. But in 2020 PCR ratio has been increased 72.7% which is a good indicator and which states that the prescribed percentage of funds to be set aside by the banks for covering the prospective losses due to bad loans.

Measures taken by RBI :

By seeing the rapid deteriorating financial position relating to liquidity, capital and other critical parameters, and in the absence of any credible plan for infusion of capital of 'Yes Bank' Reserve Bank of India took an immediate action in the public interest especially in the interest of depositors. The following are the measures taken by RBI.

1. RBI has taken over Yes bank management:

RBI has superseded the private-sector lender's board, and appointed Prashant Kumar, who was serving as chief financial officer and deputy managing director at State Bank of India (SBI), as an administrator.

2. Moratorium:
RBI has imposed moratorium. Moratorium is a temporary suspension of activity until future events warrant lifting of the suspension or related issues have been resolved. Hence, withdrawal limits have capped upto Rs. 50,000 from his savings or current or any other accounts. If in case a depositor holds more than one deposit account with YES Bank, then the moratorium will apply cumulatively on all their accounts. There is a small relief to depositors in cases of emergencies. RBI has said that one could withdraw up to Rs 5 lakh for medical emergencies, higher education expenses, payments towards marriage, other ceremonies and unavoidable emergencies.

3. Reconstruction Scheme,2020:
RBI and it came up with a 'Reconstruction plan,2020' which is known as 'Yes Bank Ltd. Reconstruction Scheme,2020'.

Share capital of the reconstructed bank:

- The RBI said that the authorized share capital shall to altered at Rs 5,000 crore and the number of equity shares will stand altered to 2,400 crores of Rs 2 each aggregating to Rs 4,800 crore.
- Investor bank to agree to invest in the equity of the Reconstructed bank to the extent that post-infusion it holds 49 percent shareholding at a price not less than Rs 10.
- Before completion of 3 years from the date of infusion of capital Investor bank to not reduce its holding below 26 percent.

Investments :

- The following is the table shows the investment by various banks to rescue Yes bank.

Investors	Investment(in crores)
SBI	7250
HDFC & ICICI Bank	1000
AXIS bank	600
Kotak Mahindra Bank	500
Federal Bank	350
Bandhan Bank	300
IDFC First	250

LIC to invest 9.9% of stake in Yes bank.

Constitution of the Board of Directors

- Office of the Administrator of Yes Bank appointed by RBI to stand vacated New Board to constituted.
- Investor bank to have 2 nominee directors appointed on the Board of the Reconstructed Bank.
- Under sec 36AB of banking regulation act, RBI may appoint 2 additional directors and it is open for Yes bank to opt for more directors.
- The maximum number of members should not exceed prescribed by Articles of Association excluding additional directors appointed by RBI.
- New members of the Board to continue in office for a period of one year, or until an alternate Board is constituted through the normal procedure.

Rights and liabilities of the Reconstructed bank

- All contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments shall be effective in the same manner, as was applicable before the Scheme.
- All the deposits, rights, liabilities and the obligations of its creditors of the Reconstructed bank, will continue in the same manner except as provided in the scheme.
- Under Basel III framework, Yes bank issued instruments qualifying as additional Tier 1 capital stands to be written down permanently, in full, from the appointed date.

Continuation of services of the employees

- All the employees of the Reconstructed bank to continue in its service with the same remuneration, terms and conditions of service.

- At any point of time Board of Directors of the Reconstructed bank will have the freedom to discontinue the services of key managerial personnel.

No change in the offices or branch network of the Reconstructed bank

- There will be no change in branches.
- Reconstructed bank to open new offices and branches or close down existing offices or branches as per RBI norms.

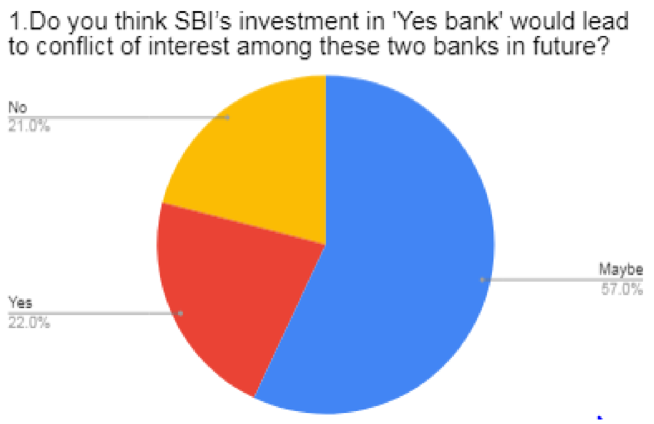
Furnishing statements and information

- The Reconstructed bank has to furnish information to RBI time to time regarding the implementation of scheme or any other matter.

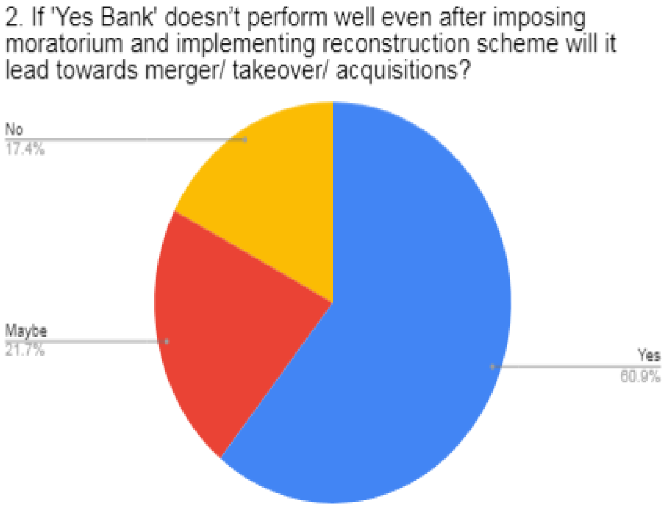
II. Findings

Survey has been conducted through well structured questionnaire. Samples of 100 respondents have been taken and have collected the necessary information which is required for the study. The following are the findings

Interpretation:
According to the survey, which has been conducted we can clearly see that majority of the respondents i.e.,57% said that there 'may be' a conflict of interest among these two banks in future. Few of the issues may be related to organizational structure and composition of management.

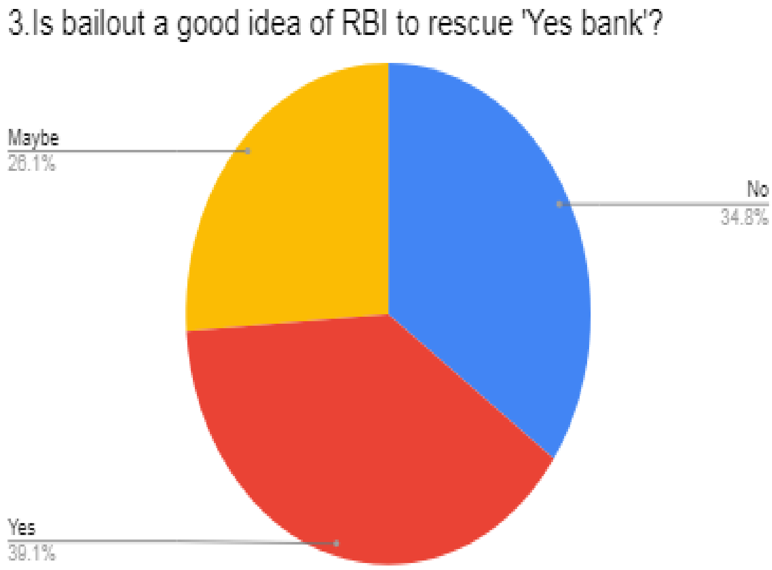


Interpretation:
60.9% respondents have said that if 'Yes bank doesn't perform well even after imposing moratorium and implementing reconstruction scheme it may lead to the Merger/takeover/acquisition.
21.7% said that they were skeptical about this issue and 17.4% said that it may not lead to the aforesaid. According to my view point all the prominent banks have invested in yes bank, if it doesn't perform well in future even after the measures which have been taken by RBI, it will be a good takeover prospect having large customer base and huge penetration in retail and commercial business.



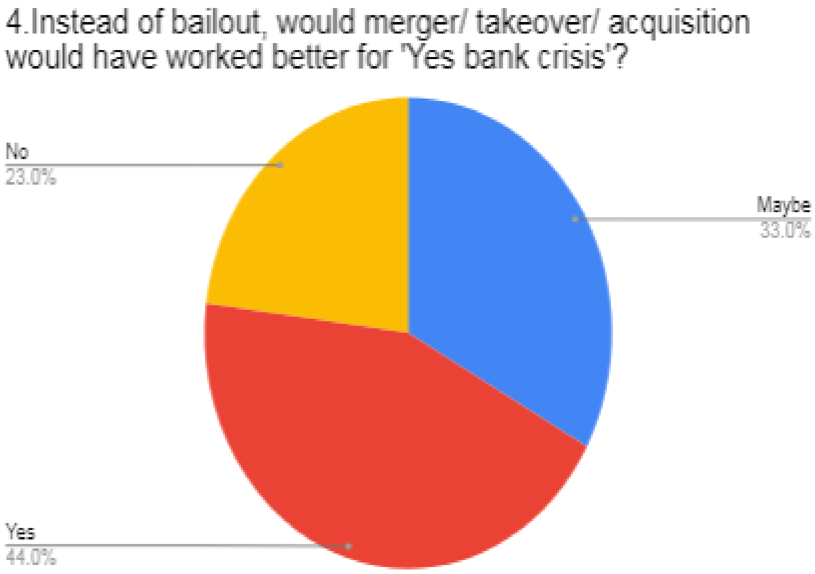
Interpretation :

Majority of the respondents have said that it is a good idea of RBI to rescue ‘Yes bank’. According to my opinion bailing out is an appropriate move by RBI because bank is an important component of our financial system and such intervention is needed to ensure that the risks on the entire financial system can be contained/reduced. Banks do carry financial risks in which the most prominent one is default risk and thus bailing out certain banks in this case ‘Yes bank’ is considered to be a good move as it holds primary importance in the Indian economy.

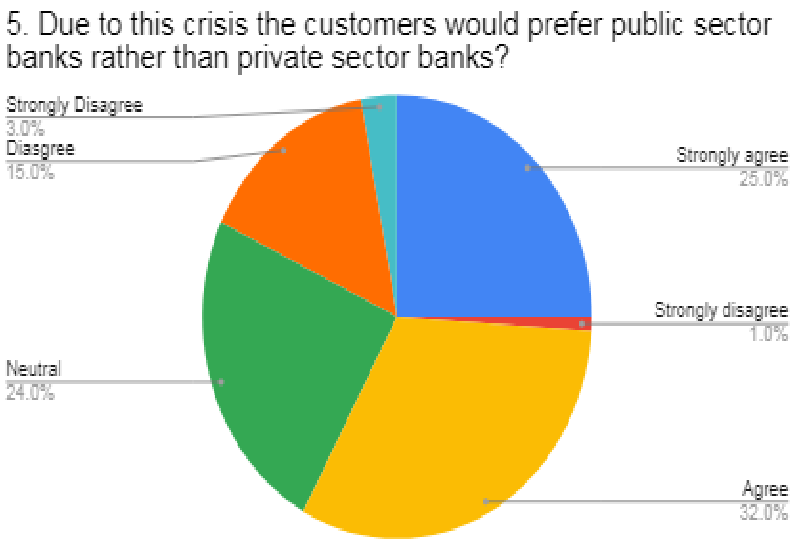


Interpretation:

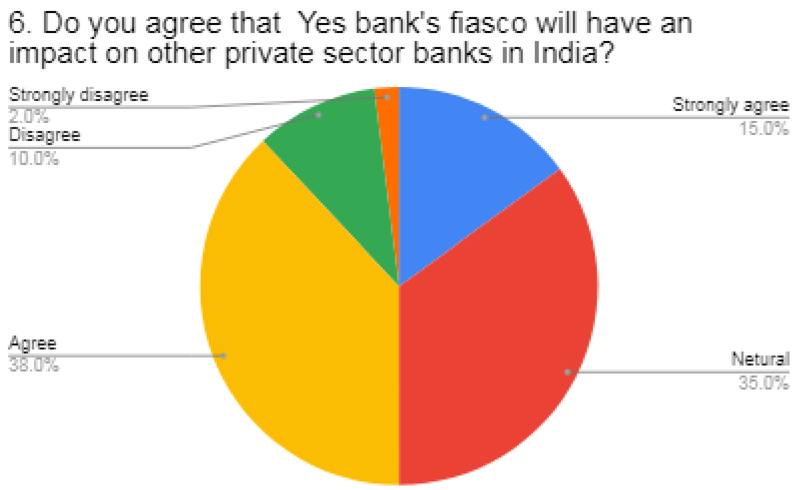
44% of the people said that Merger/takeover/acquisition would have worked better and 23% said ‘No’ and 33% of them were not sure about it.According to my view point‘Bailout’ is actually a good option of RBI to rescue’ Yes bank’. Merger/takeover/acquisition can be the next best alternative if bailout doesn’t work.



Interpretation:
By looking into the pie chart we can say that bank customers would prefer public sector banks rather that private sector banks. We could see that 32% of the people have agreed to this statement. As we all know the banking system runs on trust. Due to this crisis it is likely to push the depositors away from the private sector banks.

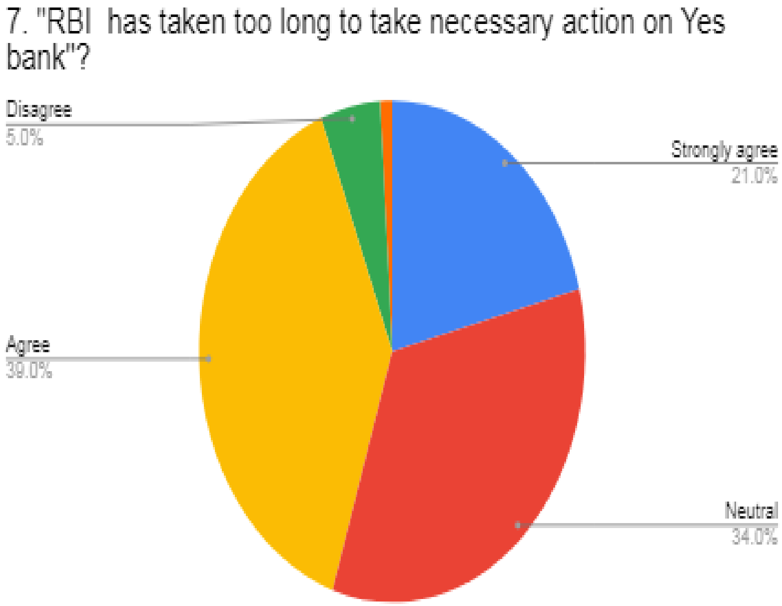


Interpretation:
According to the survey, 38% of the respondents have agreed that Yes bank's failure will have an impact on other private sector banks in India. As we know that 'panic spreads faster than confidence' as investors/customers are, generally, risk-averse. They will have to face skepticism over their financials and public mistrust. Recently, the government of Maharashtra has issued orders to all its departments and civic bodies, to refrain from parking money in private banks.



Interpretation

39% of the respondents agreed to the statement that RBI took long time to take necessary action on 'Yes bank'. According to my opinion RBI was trying to find a market led solution to the problems being faced by Yes Bank. Due to this reason, RBI was pushing Yes Bank to arrange for more capital and hence it took a long time to take necessary (Regulatory and supervisory) action on 'Yes bank'.



III. Suggestions

- RBI gave a lot of time to Yes bank instead of finding loopholes in the management. The time it started to take an action bank's net worth has eroded. Hence RBI, needs to impose strict supervisory and regulatory measures.
- There must be a clear separation from ownership and control. Even in past we have seen few cases one of them is Global trust bank which has been rescued through merger with Oriental bank of commerce (public sector bank) in 2014.
- Yes bank's efforts to window dress its balance sheet wouldn't have been possible without the support of auditors. Hence, selection of auditors must be done with care.
- Banking system runs on trust. Hence, in order to protect the interest of investors/depositors/customers there should be a transparency in the banking system.

IV. Conclusion

Failure of any banking system or a financial institution is considered as a breakdown for the Indian economy. Yes Bank crisis is not exactly new or unique and its problems with mounting bad loans reflect the underlying woes in the financial sector. There are several such instances in past

- The acquisition of Global Trust Bank by a Oriental Bank of Commerce(public sector).
- The acquisition of United Western Bank by Bank IDBI(public bank).

In both the cases, the banks were put under moratorium and later RBI and Government came forward and merged both the banks.

In YES Bank's case, the Central bank has re-established its authority and the officials in the RBI and the Finance Ministry have started to assume that the damage done to their credibility has been restored.

- The Reserve Bank of India has extended by three months a special liquidity of Rs.50,000 crore for Yes Bank Ltd. to help the private lender cover for any shortfall in deposits.
- Yes Bank is currently seeking Rs 15000 crore capital is the final hurdle in the revival of bank and could set the lender on profitability and business as usual. This FPO boosts CET1 ratio and at the same time taking care of its growth requirement for a period of two years.
- The bank said that the FPO through the fresh issue of equity shares will have an offer size of upto Rs 15000 crore, of which Rs 200 crore is reserved for 'eligible' employees.
- Yes Bank has targeted minimum 5% savings in FY21 through "cost optimization and productivity transformation backed by Digital and Analytics
- Bank had announced to sell properties owned by Essel Group firm, Essel Infraprojects, and SKIL Infra to recover dues of Rs 1,368.16 crore and Thapar Group's Avantha Holdings and Oscar Investments Ltd in order to recover loan dues of over Rs 1,000 crore.

By looking into the above moves we can surely say that 'Yes bank' will definitely perform better in coming years by regaining the market capitalization and at the same time gaining the confidence of investors/customers. According to my point of view merger is unlikely to happen as the bank is performing well even in this pandemic situation and is trying to recover from losses. The banks/institutions which have infused the capital in 'Yes bank' will slowly withdraw their stake, once when they feel that the banks is performing well according to the standards prescribed by RBI. Yes Bank is one of the fastest growing private sector bank and hence the government and RBI will never let 'Yes bank' to go down, it will always try to protect the interest of public and investors in general.

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