# Yes Bank Crisis- A Critical Analysis on Causes, Effects & Recommendations

**Tushar Ranjan Barik***
*Research Scholar, Department of Management,
Nims Institute of Management & Commerce, Nims University, Jaipur, Rajasthan, India
Corresponding Author : tushar.barik87@gmail.com,

## ABSTRACTS

***This paper looks at the failure of Yes Bank Ltd as the Crisis case in Indian history and the events that followed by the regulator. The first part of the paper reviews factors that led to the failure, consequently the bankruptcy events, and also the role of RBI in the survival of the Bank. The Banking Sector Regulator (RBI) has taken over the Management of a new generation private bank, Yes Bank due to the failure of Yes Bank. Interestingly, the bank was set up by top-notch professionals and it was running its operation as the 5th largest private lending bank in India. Suddenly, the RBI found such type of discrepancies in the operations of Yes Bank, through which the bank was going to declared as an insolvent, and got a new life from the RBI. Such abank was facing very critical governance issues and practices inthe last 2-3 years which have led to a steady decline in the bank's performance.***

## KEYWORDS

**Crisis, , Loan, Asset, quality, , NPA**

## INTRODUCTION

Yes Bank Ltd. (YBL) is a new age private sector bank incorporated in the month of November 2003. It was founded by Mr. Rana Kapoor and late Mr. Ashok Kapoor. With effect from March 01, 2019,Mr. Ranveet Gill was appointed as the MD & CEO of the said Bank.It primarily operates as a corporate bank, with retail banking and also asset management as subsidiary functions and became India's Fifth Largest Private Lending Bank. On March 5th,2020, the Reserve Bank of India announced that it supplanted the Board of Directors of the Yes Bank for a period of 30 days "owing to a serious decline in the financial position of the same Bank". The question came,why it became so panic among the stakeholders, Investors, general public, and in particular the deposit holders in Yes Bank Ltd that, 'it was the RBI's decision to limit withdrawals at Rs. 50,000 and also Shares of Yes Bank Ltd, which traded at Rs.404 per share at its peak in August 2019, fell to a record low of Rs. 5.65 per share in the month of April 2020, with the stock plunging nearly 85%'. The fall wiped out 79.43 billion rupees ($1.08

billion) from Yes Bank's market value, and pulled India's 5th Largest private lending bank into savior crisis. This research paper shows the detailed analysis of different causes of Crisis and the role of the Central Bank of India (RBI) to give a new life to the Yes Bank.

## OBJECTIVES OF STUDY

- Try to find out actual causes of Yes Bank Crisis
- To Know, what role did shadow banking play in Yes Banks's collapse?
- Try to understand the actions taken by the Central Bank of India to recover the YES Bank from the crisis.
- To give recommendations that, what should the government regulators have done differently for the future prospects of yes bank.

## NEED FOR STUDY

The Yes Bank has been established in 2003 as a mid-size private bank, is a "full-service commercial bank" and has grown up to become thefourth largest private bank in India as well as the fifth largest private lending bank in India. It is the only greenfield bank license winner in the last two decades from the Reserve Bank of India (Established with a totally new setup i.e. acquired the commercial bank license without any prior exposure to financial business). During the year 2019, the Bank declared a huge loss with high growth of NPAs and also got high risk credit rating from different credit agencies. In this way, it was pulling into a greater crisis by March 2020 and it also recovered from such crisis in the month of April 2020. Studying these aspects can give us better insights on the functioning of the bank and can potentially help other banks to pick a quote from this thereby keep their crisis under control.

## RESEARCH METHODOLOGY

We used the Exploratory Research Methodology by collecting secondary data from the bank Quarterly & Annual Reports. (Yes Bank, 2015-19), from websites of the bank, RBI, BSE India.com. and other Printed as well as electronic media. We have tried to understand the Causes of Crisis, the preventive measures taken by the Central Bank to overcome such a crisis, and the Consequences of the Crisis of a Private Bank.

## REVIEW OF LITERATURE

**'Asset Quality & Risk Management Practices - An Analysis on Yes Bank' (DR. ARUNA POLISETTY, 2019)**, In this study, the author has been tried to understand the risk management attributes by studying how it is practiced at the bank. Asset quality numbers are being collected over years and analysis is done to determine how they are maintained. The Government of India and the RBI have taken up the task of cleaning up the bank balance sheets on a priority basis. Several approaches have been used in dealing with loans and the IBC and AMC concepts are major steps towards this. This study perceives that regular monitoring of risk management, asset quality (Gross NPA & Net NPA status, NPA Ratio, PCR, Concentration of NPAs and Divergence) and knowledge banking, size of bank and other attributes are actually helping the bank to be with manageable NPA figures. Volatility in asset quality and

larger divergences are a cause of concern and negatively impacted the bank's stock price.

**Yes Bank Performance (Devansh S. Babaria,2019),** In this paper, with the help of various mathematical tools, The Author has been analyzed the performance of Yes Bank share price since December, 2019. The mathematical tools are also helping in forecasting the future price of Yes Bank. The forecast is based on the previous prices and did not consider any external factors. A Trend Line will also be provided for better understanding of the research. They have concluded the following;

- To conclude, this research paper is based on how the Yes Bank shares will perform in the near future (based on their performance since December).
- Shares of Yes Bank hit its 52-week low on Friday 6th March,2020 due to external factor of government capping the withdrawal limit on the lender to Rs. 50,000.
- Around noon even the BSE SENSEX fell by 3%.
- Consortium of lenders, led by State Bank of India, will acquire a controlling stake in Yes Bank.

**'A critical review of non-performing assets in the Indian banking industry',(Varuna Agarwala,2019),**The level of non-performing assets (NPAs) best indicates the soundness of the banking sector of a country. The objective of this study is an attempt to look into the contribution of the various banks individually to the NPA in the banking industry by looking into its growth pattern during the period 2010-2017. Further, the study is made to look into the effect of various groups of banks, mainly, State Bank of India (SBI) and its associates, nationalized banks and private sector banks on the banking industry inthis regard.

**Capital Structure Analysis and Financials Analysis of Yes Bank in India( By Hardik Brahmbhatt,2018),** This research aims to compare the capital structure and financial analysis of selected banks through some measurements. The annual financial statements of the commercial bankswere used for this study which covers a period of two years from 2015 to 2017 for debt equity and over-all financial analysis. The study assesses the capital structure of the banking measured by total debt to equity ratio (DER), f-test have been used to show the capital structure of banks and its performance. However, this study concludes that there is no significant difference in debt equity ratio amongst the years and future prospects are much profitable and growth oriented as per financials. The investors are tending to get the profit if invested during this phase of year. Coming years for the yes bank are the years of achieving of the target and mission which is set for the year 2020.



## IMPORTANT CAUSES OF YES BANK CRISIS

There is no single cause that led to the failure of Yes Bank.In rare cases of RBItake the place of the board of a commercial bank in recent history, the Banking regulator (RBI) has moved in to take charge of new age private sector bank, i.e. Yes Bank and interestingly, the bank was established by top-graded professionals. Still the RBI found such style of discrepancies within the banking operations of Yes Bank, through which the bank was visiting declared as an insolvent, and with the assistance of RBI, the bank got a replacement of life.So, we've to debate the causes, "How did Yes Bank constitute the crisis?", are as follows:

## 1. High Credit-Deposit Ratio

**Credit-Deposit Ratio**: This ratio conveys what proportion every rupee of deposit goes towards credit markets. A better growth in credit deposit ratio suggests credit growth is rising quickly, which could lead on excessive risks and leveraging on the borrower's side. Just in case of banks, it could imply that there'll be an increase in NPAs when economic cycle reverses. This ratio is a useful measure to know the systemic risks in the economy.

***Credit -Deposit Ratio (CDR) = (Total bank Credit)/Aggregate Deposits (Demand + Time Deposits)***

***Credit -Deposit Ratio of YES Bank****(Rs. In Crore)*

| Year Ended on | Mar' 2019 | Mar'2018 | Mar' 2017 | Mar'2016 | Mar'2015 |
|---|---|---|---|---|---|
| Total Bank Credit | 241,499.60 | 203,533.86 | 132,262.68 | 98,209.93 | 75,549.82 |
| Aggregate Deposit (Demand + Time Deposit) | 227,610.18 | 200,738.15 | 142,873.86 | 111,719.53 | 91,175.85 |
| **Credit Deposit Ratio (%)** | **106.10** | **101.39** | **92.57** | **87.91** | **82.86** |

(The figures are extracted from the Annual Report of YES Bank)

**Analysis:** Typically, the perfect Credit-deposit ratio is 80% to 90%. A Credit-deposit ratio of one hundred pc means a bank loaned one rupee to customers for each rupee received in deposits it received and it results a high liquidity crunch. During this case, the said ratio has been reported 92.57% within the year 2017 and it absolutely was exceeding 100% within the year 2018 and 2019. That happens because of the loan mess, customers withdrew large amounts, leading to the credit-deposit ratio of Yes Bank crossing 100% (it lent over what it received) in FY18 and 19, which was creating an alarming situation , but the Bank Management have ignored that situation and pulled the bank into the Crisis.

## 2. It went on a loaning spree with advances was increasing by 334% between Financial Year 2014 and 2019,

Between 2004, when it had been launched, and 2015, Yes Bank was one in every of the buzziest banks. In 2015, UBS, a global financial services company, raised the primary red flag about its asset quality. The UBS report stated that *Yes Bank had loaned over its net worth to companies that were*

*unlikely to pay back.* However, Yes Bank continued to increase loans to many big firms and have become the fifth-largest private sector lender. Within the last five years, Yes Bank went on a loaning spree. Its total advances rose by 334% between FY14 and FY19, the very best rise among comparable banks within the period.

**44 Corporates from 10 big corporate groups account for Rs 34,000-crore Yes Bank bad loans**

At the time when Mr. Rana Kapoor, the former MD and CEO of Yes Bank Ltd and his family members were under investigation on charges of professed money laundering and grant of suspicious loans extended by the Bank various groups within the country, Such as:

- At least nine companies of the Reliance *Anil Ambani Group considered for NPAs worth*

  *Rs 12,800*crore,

- At the minimum 16 companies belonging to Subhash Chandra's Essel Group made up Rs 8,400 crore worth of bad loans of the Yes Bank.

- Further, Dewan Housing Finance Corporation and Belief Realtors Private Ltd of the DHFL Group have taken loans amounting to Rs 4,735 crore

- while Yes Bank had exposure of over Rs 2,500 crore to IL&FS that turned bad.

- Yes Bank is additionally learnt to have loaned Rs 1,100 crore to Jet Airways.

- Kerkar Group whose two companies Cox & Kings and Go travels have taken loans of around Rs 1,000 crore;

- McLeod Russel of B M Khaitan Group (Rs 373 crore);

- two projects of Omkar Realtors and Developers (Rs 2,710 crore);

- Radius Developers (Rs 1,200 crore) and

- C G Power of Thapar Group (Rs 500 crore).

**Analysis:** In step with the estimates, the maximum amount as 25% of all Yes Bank loans were extended to Non-Banking Financial Companies, land firms, and also the construction sector. These were the three sectors of the Indian economy that have struggled the foremost over the past few years. The India's fifth largest private lending Bank was overexposed to thosevirulent assets. What made it more vulnerable to bankruptcy was its inability to honestly recognize itsNon-Performing Assets. On the three different occasions, the last being in November 2019, the RBI pulled it up for divergence of NPAs by under reporting — and adequately provide for such bad loans.

## 3. High Gross NPA Ratio& Divergence of Gross NPA in F.Y 2019

Gross NPA Ratio is a useful gizmo, which measures the standards of Bad Loans and also the high Gross NPA ratio shows, performance of the bank in Assets management. This ratio is that the relationship between Gross NPA and also the Gross Advance amount. Gross NPA is

that the aggregate of all loan assets that are classified as NPA as per RBI guidelines. When the NPA occurs, it's not just an interest income loss the bank, but a principal loss furthermore. That means, if a bank has lent Rs.100 Crores to an organization with an outstanding loan amount of 80 Crores, then the bank would lose these 80 Crores together with the longer term interest payments further more when the corporate doesn't repay back.

**Gross NPA Ratio= (Gross NPA/Gross Advance)x100**

***Gross NPA Ratio of YES Bank*** ***(Rs. In Crore)***

| **Year Ended on** | **Mar' 2019** | **Mar'2018** | **Mar' 2017** | **Mar'2016** | **Mar'2015** |
|---|---|---|---|---|---|
| Gross NPA ( a) | 7,882.56 | 2,626.80 | 2,018.56 | 748.98 | 313.4 |
| Gross NPA (%) (b) | 3 | 1 | 2 | 1 | 0 |
| Gross Advances (c ) | 241,499.60 | 203,533.86 | 132,262.68 | 98,209.93 | 75,549.82 |
| **Gross NPA Ratio (%) (d)** | **3.3** | **1.3** | **1.5** | **0.8** | **0.4** |

(The figures are extracted from the Annual Report of YES Bank)

**Analysis:** From the above table we have found that, the Gross NPA ratio was below 1% upto March 2016 and exceeds 1% in the financial year 2016-17 and 2017-18. Unfortunately, the bank was reported a Gross NPA of Rs.7882.56 in the F.Y 2018-19 with an increasing trend of 3% and such trend was still continuing to the F.Y. 2019-20. The bank's gross NPAs stood at Rs 40,709.2 crore in Q3 FY20 up from Rs 5,158.6 crore at Q3 FY19 and as of the September 2019 ended quarter, Yes Bank had a gross NPA ratio of 7.39 percent.

**Divergence:** In FY19, per the private lender's exchange notification, the RBI assessed the extent of gross non-performing assets at Rs 11,159 crore. The bank had disclosed gross NPAs of Rs 7,882 crore, implying a divergence of Rs 3,277 crore or 41 percent.The divergence in reporting of net NPAs for the year stood at Rs 2,299 crore or 51 percent of the net NPA amount reported by the bank, the notification said. As per the RBI's rules, banks are required to disclose any divergence of quite 15 percent. The market regulator recently specified that this divergence should be disclosed to investors within daily of the receipt of RBI's report.

## 4. High Net NPA Ratio

The Net NPA to Advances (Loans given) ratio could be a useful metric that speaks about overall quality of a bank's loan book. The Net NPA is calculated by subtracting cumulative balance of provisions outstanding at the end of a period from Gross NPAs. Generally, the higher Net NPA Ratio shows increasing bad quality of loans.

**NPA Ratio = Net Non-Performing Assets / Loans given (Advances) x 100**

***Credit -Deposit Ratio of YES Bank*** ***(Rs. In Crore)***

| **Year Ended on** | **Mar' 2019** | **Mar'2018** | **Mar' 2017** | **Mar'2016** | **Mar'2015** |
|---|---|---|---|---|---|
| Gross NPA (a) | 7,882.56 | 2,626.80 | 2,018.56 | 748.98 | 313.4 |
| Cumulative Provision (b) | 3,397.71 | 1,314.05 | 946.29 | 464.51 | 313.40 |
| Net NPA(c ) [(a) –(b)] | 4,484.85 | 1,312.75 | 1,072.27 | 284.47 | 0 |
| Net NPA (%) ( d) | 2 | 1 | 1 | 0 | 0 |
| Gross Advances (e) | 241,499.60 | 203,533.86 | 132,262.68 | 98,209.93 | 75,549.82 |

| | | | | | |
|---|---|---|---|---|---|
| Net Advances (f) =[e –f) | 238,101.89 | 202,219.81 | 131,316.39 | 97,745.42 | 75,236.42 |
| **Net NPA To Advances (%)** | **1.88** | **0.65** | **0.82** | **0.29** | **0.00** |

(The figures are extracted from the Annual Report of YES Bank)

**Analysis:** The above Table presents the Net NPA Ratio, It can be noticed that Net NPA ratio has resulted within the first Four years of study i.e. from 2014-15 to 2017-18 is below 1%. But in the year 2018-19, it has been reported 1.88%, which is double then the previous years. The bank had didn't make sufficient provisions against NPA in that year. Many borrowers started defaulting. The bank's gross non-performing asset percentage, that's the proportion of loans overdue for over 90 days, zoomed to 7.39% as of September 2019, the highest among comparable banks. As per the info collected, the bank's gross NPAs stood at Rs 40,709.2 crore in Q3 FY20 up from Rs 5,158.6 crore at Q3 FY19, the YES Bank said in an exceedingly regulatory filing to BSE. The net NPAs of the bank stood at Rs 11,114.72 in Q3 FY20, up from Rs 2,876.3 crore in Q3 FY19 and as of September 2019 ended quarter, Yes Bank had a gross NPA ratio of 7.39 percent and a net NPA ratio of 4.35 percent.

## 5. Loan spree and high NPA meant poor profitability, gauged by Yes Bank's sinking Return on Assets:

The loan spree & high NPA meant poor profitability, gauged by Yes Bank's sinking Return on Assets (RoA). Banks with higher NPAs effectively have lesser funds to advance due to the upper provisioning that they have to provide i.e. lesser funds on which they will potentially earn interest income. Other negative impacts of high NPAs are that the upper NPAs will increase the quantity of provisioning thereby impacting the profitability of the banks. Thus Banks may face difficulty to keep up the capital adequacy ratio. There'll be increased pressure on Net Interest Margin (NIM) and compulsiveness to cut back high NPA's.

**(RoA = Net Profit/ Total Assets)**

**Return on Asset (ROA)** ***(%)*** ***(Rs. In Crore)***

| **Year Ended on** | **Mar' 2019** | **Mar'2018** | **Mar' 2017** | **Mar'2016** | **Mar'2015** |
|---|---|---|---|---|---|
| Net Profit/ (Loss) | 1,720.27 | 4,224.56 | 3,330.10 | 2,539.45 | 2,005.36 |
| Gross NPA | 7,882.56 | 2,626.80 | 2,018.56 | 748.98 | 313.4 |
| Net NPA | 4,484.85 | 1,312.75 | 1,072.27 | 284.47 | 0 |
| Total Assets | 380,826.17 | 312,445.60 | 215,059.92 | 165,263.41 | 136,170.41 |
| **Return on Assets (%)** | **0.45** | **1.35** | **1.54** | **1.53** | **1.47** |

(The figures are extracted from the Annual Report of YES Bank)

**Analysis:** As an example, Yes Bank's RoA in FY19 was 0.45, in FY18 it absolutely was 1.35, Thus the y-o-y change of -0.90 in FY19 is shown within the above table, that happens, because of the increment in NPA within the year 2019 i.e. 100% Increase in Gross NPA and more 100% increase in Net NPA. As a result, the Bank has been reported a Profit of Rs. 1720.27 Crore within the year 2018-19, which was decreased by Rs.2504.29 Crore from the year 2017-18 and also the bank has suffered a loss of Rs 18,564 crore in December quarter in FY20 because of provisions and

contingencies of Rs 24,567 crore.This is often its worst quarterly loss in history. It absolutely was showing a nasty signal for the bank and pulled towards the greater crisis.

## 6. Low provisions& Divergence in PCR (Provisioning Coverage Ratio)

Provisioning is an RBI prudential regulation norm in which banks have to 'provision' (set aside) funds to a prescribed percentage of their bad assets. The percentage of bad asset that are provided for is called Provisioning Coverage Ratio (PCR). This is a good tool to determine the extent to which the bank has provided against the troubled part of its loan portfolio. The PCR helps to determine relation between 'Current provision balances' to the 'Gross NPA'. PCR differs according to the asset quality. When an asset cannot be recovered, and is lost forever, it will be categorized as a 'loss assets' and hence banks have to set aside 100% of such loss assets out of its profit andif sufficient profits are not there, it eats up the capital impacting capital structure and thereby leading further reparations.

**Provisioning Coverage Ratio (PCR) = Cumulative provisions / Gross NPA**

**Provisioning Coverage Ratio (PCR)** ***(%)*** ***(Rs. In Crore)***

| **Year Ended on** | **Mar' 2019** | **Mar'2018** | **Mar' 2017** | **Mar'2016** | **Mar'2015** |
|---|---|---|---|---|---|
| Cumulative Provision (b) | 3,397.71 | 1,314.05 | 946.29 | 464.51 | 313.40 |
| Gross NPA | 7,882.56 | 2,626.80 | 2,018.56 | 748.98 | 313.4 |
| **PCR (%)** | **43.10** | **50.02** | **46.88** | **62.02** | **100.00** |

(The figures are extracted from the Annual Report of YES Bank)

**Analysis:** While bad loans assembled, Yes Bank didn't make enough provisions in its profits. Its Provision Coverage Ratio within financial year 2019 was 43.1%, the bottom among comparable banks. RBI says a PCR of >70% is desirable, we wish to imply the above situation that, the YES Bank was maintaining the Low PCR %, is below the quality since 2016. The bank made provisions of Rs 1,336 crore for the 3rd quarter of the F.y.2019-20. Total outstanding advance of the said bank stood at Rs 2.24 lakh crore within the quarter under review, below the 6.3 per cent year-on-year. For the F.Y 2018-19,Its provisions were the bottom among comparable banks, which is expressed as under;

**A Comparison Chart of Provision coverage ratio**

| **Name of the Bank** | **PCR(%)** |
|---|---|
| **Yes Bank** | **43.10** |
| **ICICI** | 70.60 |
| **HDFC** | 71.36 |
| **Axis Bank** | 77.00 |
| **Kotak** | 71.90 |
| **SBI** | 78.73 |

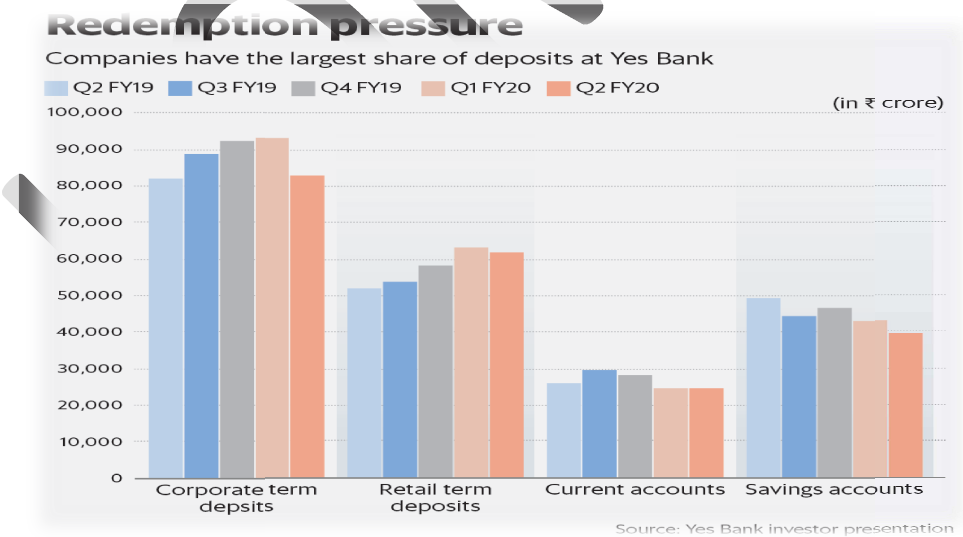
**Divergence**: On 12th November'2020 (Tuesday) the bank reported a lower net profit of Rs 1,084.03 crore for 2018-19 compared to Rs 1,720.28

crore announced earlier due to higher NPA evaluated by the Reserve Bank of India. The divergence in net non-performing assets (NPAs) of the YES Bank --the difference in bad loans reported by the said bank and therefore the assessment is done by the RBI -- stood at Rs 2,299 crore forthe financial year 2018-19, Yes Bank said in an exceedingly regulatory filing. The private sector financer had reported a net profit of Rs 1,720.28 cr . in 2018-19.

According to a report, the adjusted (notional) net profit after tax of the said bank for the financial year ended on 31st March, 2019 after taking into consideration the divergence in provisioning was at Rs 1,084.03 crore and also the variance in provisioning was at Rs 978 crore.

## 7. Redemption Pressure

The YES Bank was facing a regular outflow of liquidity. It means that the Depositors withdrew huge amounts, leading to the credit-deposit ratio crossing 100% in the F.Y 2018-19. That means, it lent more than it received from the depositors.More than ₹20,000 crore of deposits were withdrawn by the depositors from the bank during the six-month period due to fear of bankruptcy. So the bank was facing a liquidity problemand pulled it into the crisis.within the third quarter of 2019, the most popular Tirupati temple trust withdrew its deposits from Yes Bank worth Rs 1,300 crore. The main points are shown in the following figure;




## 8. Deteriorating Financial Position

The financial position of Yes Bank has undergone a gradual decline over a previous couple of years due to its inabilityto boost the capital to manageprospective loan losses, downgrade in bank revenues, triggering citation of bond pledges by investors, and withdrawal of deposits by the depositors. The bank was making losses and inadequate profits within the last four quarters of the

financial year 2019-20, which result in an unhealthy condition for the bank.

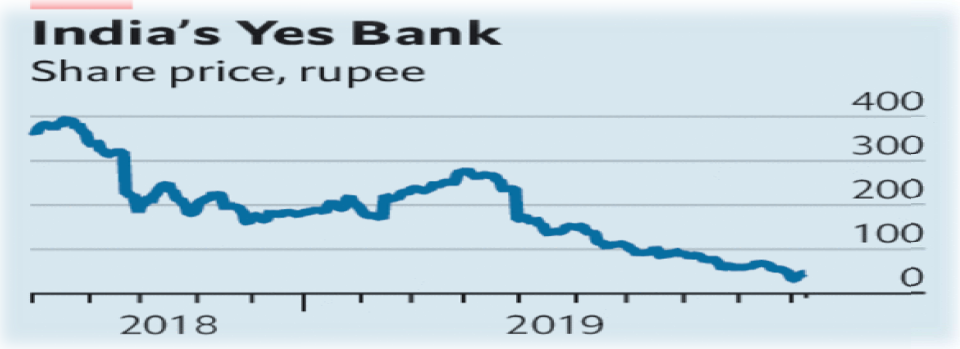
## 9. Governance Issues

In recent years the YES Bank has also experienced serious governance issues and practices, which have led to a gradual decline in financial position. Take, as an example, the bank under-reported Non-Performing Assets to the tune of Rs 3,277 crore in the year 2018-19. That was prompted Reserve Bank of India to dispatch Mr. R Gandhi, a former Deputy Governor, to the Board of Directors of the bank.

## 10. The bank's stock price fell steadily in a couple of years

During the month of August 2018, the YES Bank stock was trading in the exchange at around Rs. 300 per share and therefore the then MD & CEO Mr. Rana Kapoor had vowed never to sell his shares and willing to transfer them on to his daughter. A year and a half later, the casewas completelydifferent and therefore the Stock price of the Yes Bank fell gradually, after because of the forced sale of 10 crore equity shares on the rear ofthe invocation of pledged shares by a large stakeholder during the F.y 2018-18. Kapoor and his group entities had sold 2.16 percent of their stake within the bank was amounting to Rs 510 crore through the open market transaction on September 26-27 of 2019.

After this, Kapoor and his group entities' stake in the Yes bank had been reduced to 4.72 percent and gradually it becomes worst because the investors werelosing their confidence on the management of Yes Bank and went for the redemption of their capital. This can be the foremost important cause for the bank's crisis.




## 11. Less engagement of Investors to invest their capital into the bank

In the past couple of years, the engagement of the investors was very less in infusing the capital into the YesBank. The investors kept on discussing with some senior officials of the Reserve Bank of India, but because of various reasons, they didn't put any capital into the said bank. The reason behind not putting the capital was that the investors were not serious enough to place their capital into the bank.

## 12. Unsound and erroneous Assurance

Yes Bank has given false assurance by making an announcement that the management of the bank was in regular contact with the investors who will invest and put the type of funds that the banks require to survive. But actually, there have been no such proposals. Adding thereto, the Reserve Bank of India also said that, they were in frequent contact with the management of the Yes Bank to seek out ways to create up the liquidity and for a sound financial position, unfortunately, there was an unsound and erroneous assurance by both Yes Bank and the regulator.

## IMPACT OF YES BANK CRISIS

The renowned private banking player Yes Bank, which once had a commanding position within the country saw its NPAs growing rapidly with the bank's primary lenders was undergoing steep valuation declines or started undergoing an investigation itself. The resultant cash crisis was accountable for the trickle-down effect that not only affected the direct account holders but had an effect on various other fronts still. These are discussed as under;

**A. Impact of Crisis on Customers**:

The crisis in Yes Bank and its impact on the customer's interest**.** During the great crisis of the Yes Bank, Amount deducted towards loan and premium payments higher than Rs. 50,000 was impacted.There was a greater impact on customers whose salary account is linked to Yes Bank. So many customers have visited multiple ATMs but none of them dispensed money and Some also tried using digital banking but was unable to transfer funds to their other bank accounts. The possibility of renewing or granting loans and making investments by the bank was reduced at that time.

**B. Impact of Crisis on Investors**

Almost thirty-twoopen-ended mutual fund schemes are exposed to Yes Bank debt with a whole exposure of ₹2,848 crores. Several of those bonds are AT 1 (Additional Tier 1) bonds that are designed to soak up losses when the capital of the bank falls below a specific level. Throughout a note to distributors, Nippon India Mutual Fund, which has the biggest exposure to Yes Bank, same that it's written off its entire exposure to the bank. Inflows into Nippon schemes with Yes Bank exposure have additionally been restricted to ₹2 lakh per capitalist.

**C. Impact of Crisis on Insurance Companies:**

The first and foremost result of the Yes Bank crisis was on Life Insurance Corporation of India & other Insurance firms. The insurers have sometimes seen a high quantity of revenue assortment coming back within the month of March every year. The premiums sometimes flow in currently as online payments. Because of the automation of processes, the bank for ECS (through NACH) debit and

cheque clearances for LICI was Yes Bank Ltd, which was affecting the collections for the corporation for the month of March for the 4th Quarter of the F.Y.19-20.Just like LICI, other insurance companies have also suffered a huge loss during that time.

**D. Impact of Crisis on the economy:**

The crisis on Yes Bank's was a crippling impact on the Indian economy, too. Some situations that have been to play out are:

a) **Digital payment mistrust:** Yes Bank had one amongst the foremost widespread digital payment networks in India, powering transactions on sites like PhonePe, 5Paisa, and Flipkart. The sudden curbs on its operations, and limited functionality of its cards, it results in merchants' money was getting frozen.

b) **A greater impact on mutual fund industry:** The debt funds of different asset management companies (AMCs) took a severe beating as many of them had exposure to the bonds and non-convertible debentures (NCDs) issued by the Yes Bank Ltd. Yes Bank is also a constituent of the Nifty 50 index, and hence it was present in many index funds, whose values have been deteriorated.

c) **Increased supervisory role for RBI:** The Reserve Bank of India has been at the tiller of the Yes Bank rescue act by taking the place of its board of directors and convinced the State Bank of India to fund the bailout. However, a vital question remains in our mind that, if the RBI was alert to the precarious financial situation, why did it wait till it reached some extent of no return? Regardless of the outcome of this discussion is, the accord around increased regulatory powers for the regulator (RBI) is making firm ground.

d) **Loss of reputation for India:** The Yes Bank crisis comes within the backdrop of a prevailing atmosphere of economic stress inside the telecom and also the airline sectors, prompting reconsideration by global capitalists on the efficacy of sector-related policies. With the intercalary strain of economic turmoil caused by the Yes Bank Ltd, global fund houses are guaranteed to seek safer havens or approach any more investments into the Indian economy with caution.

## POINTS ON REVIVAL OF YES BANK FROM CRISIS

The crisis inYes Bank Ltd and its impact on customers all over the country has yet another time raised the questions on accountability of banks. The need of the hour is taking effective remedial steps to ensure good health and credibility of the Indian banking system and restore the trust of depositors and investors in

the Country. The rapidly deteriorating financial position of the Yes Bank Ltd. relating to liquidity, capital and other critical parameters, and the absence of any credible plan for infusion of capital has necessitated Reserve Bank of India to take immediate action in public interest and particularly in the interest of the depositors. The following action has been taken by the RBI for the restoration of Yes Bank;

A. **Control Over the Management:**

In terms of section 45 of the Banking Regulation Act, 1949 (10 of 1949), during the period of moratorium the Regulator of the Banking Sector in India ( i.e. RBI) may, if so desired in public interest or in the interest of the depositors or to secure the management of the India's 5th largest private lending bank, frame a scheme of reconstruction or amalgamation of the concerned banking Institution. Reserve Bank of India has condemned the affairs of the Yes Bank Ltd. and put restrictions on its operations. On the separate hand, Enforcement Directorate registered a Money Laundering Case against Rana Kapoor, the founding Father of the 5thYes Bank ltd .

B. **The Flow of Liquidity:**

The bank was facing a regular outflow of liquidity. It means that the Customers withdrew large amounts, resulting in the credit-deposit ratio crossing 100% in 2018-19. That is, it lent more than it received. Deposits worth over ₹20,000 crores were withdrawn from the bank during the six-month period. On the 5th day of March2020, the Central Bank had imposed a moratorium on the 5th largest private lender India and restricted the withdrawals to Rs 50,000 per depositor till 3rd April'2020, in view of its poor financial health due to bad loans.

C. **Reconstruction Scheme:**

In the month of March'2020, The Reserve Bank of India or RBI has been published a draft scheme of revival Yes Bank, the public lender which has been put under the control of the Reserve Bank of India. India's biggest nationalized bank, SBI has expressed its interest to infuse capital into the Yes Bank Ltd. and participate in its reconstruction scheme. Such Draft Reconstruction Scheme was implemented within the month of April 2020 and also the Scheme may be called 'Yes Bank Ltd. Reconstruction Scheme, 2020'. The Scheme covers the subsequent Points.

## Here are importantthings to know about RBI's 'Yes Bank reconstruction scheme':

i. **For Deposits:**According to the Yes Bank Reconstruction Scheme, all the deposits with Yes Bank Ltd will be continuedwithin the same manner and with the identical terms and conditions,

completely unaffected by the new scheme.

ii. **The Share capital of the Reconstructed Bank**: AuthorizedShare capital of the Reconstructed Yes Bank shall stand altered to Rs. 5,000 crore and a number of equity shares will stand altered to Rs. 2400 crore of Rs. 2 each. The investor bank (i.e. State Bank of India) shall agree to make an investment within the equity shares of reconstructed Yes Bank to the extent that post-infusion holds 49% shareholding within the reconstructed Yes Bank Ltd. at a price not less than Rs. 10 (face value of Rs. 2) and premium of Rs. 8.

During this reconstruction, seven investors infused Rs. 12000 crores in Yes bank. These investors are State Bank of India, ICICI Bank Ltd, HDFC Bank Ltd, Axis Bank Ltd, Kotak Mahindra Bank, Rakesh Jhunjhunwala, Radhakishan Damani, and Azim Premji trust. Out of which the SBI has invested Rs 7,250 crore in the sufferer bank to overcome the financial crisis and remains 49% stake capital owner of Yes Bank.Further,ICICI Bank Ltd and mortgage lender HDFC has been invested in Rs. 1,000crores each. Axis Bank has also been invested Rs.600 crores, while Kotak Mahindra Bank wasputting into Rs. 500 crore. Bandhan Bank and Federal Bank have been infused Rs. 300 crore each, while IDFC First Bank was putting into Rs.250 crore.

iii. **Three Year Lock-In-Period for Investors**: The investor bank shall not reduce its holding below 26% before completion of three years from the date of infusion of the capital into Yes Bank.

iv. **Constitution of the Board of Directors**: From the appointed date, the office of the administrator of Yes Bank, appointed by the Reserve Bank, shall stand vacated, and a new board will be constituted.

**(1) ---------- CEO & Managing Director**
**(2) ---------- Non-Executive Chairman**
**(3) ---------- Non-Executive Director**
**(4) ---------- Non-Executive Director**

Accordingly, the Bank has constituted its Board of Directors and Mr.Prasant Kumar is working as CEO & Managing Director.

v. **Nominee Directors:**As per the Conditions of 'Yes Bank's Reconstruction Scheme, the investor bank shall have to appoint two nominee directors on the board of directors of the reconstructed Yes Bank Ltd.

vi. **Additional Directors:**The Central Bank (RBI) may appoint additional directors on the board of directors ofthe Yes Bank Ltd. It will be open to the board of

directors of Yes Bank Ltd to appoint more directors into the board.

vii. **Continuation of services of the existing Staff members:** All the prevailing employees of reconstructed Yes Bank Ltd. shall continue in its service with the identical remuneration and on the identical terms and conditions of service (T&C), which includes the terms of determination of service and retirement, as were applicable to such employees immediately before the appointed date, a minimum for a period of one year. The reconstruction scheme of Yes Bank has given the freedom to the Board of directors of reconstructed Yes Bank Ltd, to discontinue the services of the key managerial personnel (KMPs) at any point of time after following the due proceeding.

viii. **Freedom to BOD for free exit:** The board of directors of reconstructed Yes Bank Ltd will, however, have the liberty to discontinue the services of the 'Key Managerial Personnel' (KMPs) at any point in time after complying with certain legal proceedings. But the members of the Board so appointed shall continue in office for a period of one year, or until an alternate Board is constituted by Yes Bank Ltd. through the normal procedure laid down in its Memorandum and Articles of Association, whichever is later.

ix. **No change within the offices or branch network of the Reconstructed Yes bank**: The offices and branches of reconstructed Yes Bank Ltd shall still continue to function in the same manner and at the same places they were functioning prior to the effective date of reconstruction, without in any way being affected by the reconstruction scheme framed by RBI.

x. **Freedom to open new office/branches:** According to the RBI's new reconstruction scheme has given the power to reconstructed Yes Bank to open new offices and branches or close down existing offices or branches, in accordance with the extant policy of the central bank.

## TEN LESSONS FROM YES BANK TO FORESTALL BANK FAILURES

The failure of India's 5th Largest Private lender, Yes Bank Ltd. comes on the heels of crisis at different non-banking finance companies, IL&FS, and DHFL and frauds in banks like PMC Bank and PNB. It involved serious lapses in any respect levels, including at Board of Directors, auditors, and regulators. Now the question comes, what should be done to forestall or reduce such type of instances in the future? The subsequent ten points are suggesting, a way to prevent the failure/ crisis of commercial banks in the future;

a. **Strict Supervision:** The banks are the backbone of an economy.

Once the banks become bankrupt, it impacts both the economy and the general public. So, Supervision is required to be strict for the banks. RBI gave an enormous rope to Yes Bank management despite the finding loopholes within the management.

b. **Short tenure for CEO:**Bank chief executive officers shouldn't be allowed long tenures as seen within the case of several CEOs who have faced issues with the central bank (RBI).The long tenure of CEO affects performance through its impact on two groups of stakeholders—employees and customers—and has different effects on each, whichends up a serious governance issue.The Central bank (RBI) caps the age limit for banks CEO at 70. But under the provisions of Companies Act 2013, banks that are also registered companies can have chief executives who are over 70 years old by passing a special resolution. Their tenure should be short & fixed for a specific period of time and thereafter they ought to be retired from their position, So, that RBI might have to rethink the age limit andtherefore the tenure for bank CEO.

c. **The Separation between ownership and control of a Bank**: The separation of ownership and control permits a hierarchical higher cognitive process which, for a few types of decisions, is superior to the market. The separation of ownership and control creates costs because of adverse selection and financial losses. These costs are potentially mitigated bya variety of mechanisms including business failure, the market for corporate control, the enforcement of fiduciary duties, corporate governance oversight, managerial financial incentives, and institutional shareholder activism. For instance, Indian public sector banks are maintaining ownership and Control separately, butin the case of private sector banks, the control is depending on the shareholdings instead of the managerial ability. That's way, the Indian private sector banks are facing the governance issue. So,there must be a clear separation of ownership and control of a bank. The Reserve Bank of India has moved in this direction, by asking banks to cap promoter shareholdings.

d. **High stakes for safety and stability**: Now-a-days It is widely assumed that banks and the banking system have a special status, mainly because they are regarded as more vulnerable to instability than other firms or sectors. That happens due to the growth of NPA and mismanagement in the private sectors and it creates a question of Safety & Stability. To overcome this issue, all the stakeholders, including the bank's Board of directors, auditors and the regulator have to maintain

constant vigil, given the high stakes for safety and stability.

e. **Continuously monitoring by the Regulator:** As, the banks are the main operator in the financial system, through which the general public money is mobilized to the Industries. If any bank is going to be bankrupt, the general public will lose their money and as a result, the economy of the country is detreated. Regular monitoring is necessary for the banks to protect the interest of the general public from unhealthy situations. So, the central bank has to continuously monitor the lending institutions on various parameters, including fit and proper.

f. **The Selection of the board of directors has to be prudent**: The board of directors is the driver of a corporation. Each and every business operation & decision making of the bank are within the hands of BOD. The choice of the board of directors should be made carefully and prudent. Despite big names as directors, Yes Bank board could not prevent aggressive lending by the management. As per my suggestion, the selection of the Board of Directors is required to be selected on the idea of Managerial ability, rather than the name & fame.

g. **Auditors' selection has to be done with care**: The auditors are the watchdog and their duty and responsibility to find out the errors in the financial statements and frauds done by the management, it depends on the experience and ability of the specific auditor. So, the auditors' selection has to be done with care. Yes Bank's auditors could not find the window-dressing the bank management was indulging in. In my opinion, 'The criteria for empanelment and selection of statutory auditors have been made after due consultation with the Instituteof Chartered Accountants of India'.

h. **The requirement of timely action**: As a banking sector regulator, the central bank should have acted in time. By the time the central bank came into the picture, the bank's net worth was eroded.So, the question arises that why the banking regulator was in deep somnolence and did not take any action against the bank and allowed such a big scam to continue to take place. In my opinion, strict action is required to be taken at the right time, otherwise, it will result in an uncontrollable situation.

i. **Investor's attention towards Corporate Governance**: As per the opinions of different experts, YES Bank scam a case of corporate governance failure, not due to the lapses the banking system. Investors should pay attention to lapses in corporate governance. The exit of upper management, a dispute between promoters, under-reporting, poor results, any drastic fall in share price should ring alarm bells.

j. **The guilty should not go scot-free:** The former chief executive officer of YES Bank Ltd, Mr. Rana Kapoor has been arrested for

investigation into the widespread lapses, but the guilty should not go scot-free so that a message is sent to prevent such instances.

## CONCLUSION

The Yes Bank experience should also make people skeptical about comparisons of public and private sector bank performance that are wont to tout the supposed superior efficiency of private banks. These comparisons are often supportedin relatively short span of time. As we all know from Yes Bank and other private banks, private sector firms can dazzle briefly so bite the dust. Whilst Yes Bank can boast of getting large financial institutions as its shareholders, history has shown that it's not always enough to avoid a crisis. The presence of enormous shareholders like Life Insurance Corporation of India, Orix Corp., Housing Development Finance Corp. (HDFC), and SBI in Infrastructure Leasing and Financial Services, as an example, couldn't prevent the fall of IL&FS. The arrogance of depositors was determined whether the bank was ready to resume lending within the near future.

The role of RBI as a Supervisor of the banking industry is remarkable, because, there was a lacking of governance on Private Sector Banks in India, that's why they are taking the advantages and also running the operations by avoiding the banking parameters framed by RBI. But Still, we've faith in RBI and its Complete Role in the survival of Yes Bank. Now the time comes to see, how the new management of Yes Bank will realign its portfolio to avoid fresh loanslippages and how the arrogance of depositors will determine whether the bank is able to start lending in the near future. Also, the bank's restructuring led to an upswing in Yes Bank's share price, which suggests it is out of the woods. This may hold true for its investors and depositors, but not for the banking sector or the Indian economy as a whole and the need of the hour is taking **effective remedial steps to ensure good health and credibility of the Indian banking system** and restore the trust of depositors and investors in the Country.

## REFERENCES:


1. Bercoff, J. J., Giovanniz., J. d., & Grimardx, F. (2002). Argentinean Banks, Credit Growth and the Tequil a Crisis: A Duration Analysis.

2. Hosmani, A., & Jagadish, H. (2011, December). Unerthing the epidemic of Non-Performing Assets - A study with reference to Public Sector Banks in India. *International Journal of Multidisciplinary Research, 1*(8), 447-459.

3. Prasad, G. V., & Veena, D. (2011). NPAs Reduction Strategies for Commercial Banks in India. *International Journal of Management & Business Studies*, 47-53.

4. Reserve Bank of India. (2015). *Master Circular on Disclosure in Financial Statements - 'Notes to Accounts'.* Reserve Bank of India. Retrieved September 10, 2018, fromhttps://rbidocs.rbi.org.in/rdocs

5. Sikdar, P., & Munish, M. (2013). Role of Non-Performing Assets in the Risk Framework of Commercial Banks – A Study of Select Indian Commercial Banks. *AIMA Journal of Management & Research, 7(2/4)*, 1 - 19. Retrieved September 9, 2018,from https://apps.aima.in/ejournal_new/articlesPDF/PallabSikdar.pdf

6. Yes Bank. (2005-19). *Annual Reports and the Quarterly Financial Report of Yes Bank for the F.Y. 2019-20*

7. Gopalan, K. Rana's 'Yes' Bank. Retrieved 01 November, 2019, from https://www.outlookbusiness. com/ the-big-story/lead-story/what-went-wrong-at-rana-kapoors-yes-bank-5446; 2019. [English]

IJOMRC