Corporate Governance Failure An Overview Of The New Emerging Scam Of A Private Sector Bank. (A Case Study Of YES BANK)

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ABSTRACT

This article undertakes a comprehensive examination of preventive measures pertaining to corporate governance and assesses their effectiveness in mitigating financial frauds within the Indian context. Modern private sector banks were created to challenge established public sector banks. YES Bank, is a prime example. It aimed to provide superior service and uphold strong corporate governance. However, a significant financial scandal severely impacted the bank's operations, harming customers, depositors, and other parties particularly known as stakeholders. The core problem stemmed from the bank's practice of issuing substantial loans to companies with poor creditworthiness, leading to a surge in non-performing assets (NPAs) or bad debts. This excessive lending and the banks inability to meet customer withdrawal demands eroded public trust. The excessive provision of loans and default of the bank in terms of maintenance of adequate funds to the customers for withdrawal resulted in the loss of confidence on the part of customers which ultimately created the situation where customers rushed for funds from their accounts and hence RBI imposed withdrawal limits. Initial investigations pointed to a system failure of corporate governance, resulting in the arrest of key personnel on charges of fraud and money laundering.

Keywords: Corporate governance, Financial frauds, financial scandals, stakeholders interests.

OBJECTIVES OF THE STUDY:

- To know the emerging scam of Yes Bank happening in the country.
- To analyse the unfavourable impact and consequences of scam on customers of the bank.
- To understand the effective post measures undertaken by RBI to improve the financial soundness of bank in order to avoid complete collapse of the bank.

RESEARCH METHODOLOGY:

This research study is primarily conceptual and descriptive in nature and it is completely based on secondary sources of information gathered from the various articles and writings available over internet. It employs a conceptual study based on data gathered from online articles, newspapers, magazines, and journals. Some other newspapers and magazines which are available in physical form are also referred to develop a narrative structure for the paper. This research paper analyzes the 'Corporate Governance Failure' that triggered this emerging scandal in a private sector bank.

INTRODUCTION

Corporate governance serves as the fundamental basis of a resilient and reliable business ecosystem, assuming a crucial function in guaranteeing ethical behaviour, transparency, and responsibility inside corporate entities. In recent years, India has experienced a notable increase in instances of financial fraud, which have not only undermined investor trust but have also prompted inquiries on the efficacy of current corporate governance structures. In light of this context, the regulatory framework that governs corporate behaviour in India, should specifically emphasize the involvement of significant organizations like the Securities and Exchange Board of India (SEBI). Through a critical evaluation of the preventive measures implemented by regulatory organizations, this study aims to provide valuable insights into the existing system's deficiencies and opportunities for enhancement. The ultimate goal is to facilitate informed discussions and strategic improvements in corporate governance practices. Yes Bank, a prominent Indian private sector bank, was established as a public limited company on November 21, 2003, and listed on stock exchanges in 2005. It was initially seen as the high vision, high growth, Technology friendly bank. It focused on corporate lending, SMEs, and retail banking, quickly gaining popularity for its customer service and digital banking initiatives. In the case of YES bank, there were at least 20 such companies which had YES bank as the sole banking partner for UPI transactions For example, Phonpe, Bharat pay, Flipkart, Swiggy and Red Bus In fact, 35% of the UPI transactions in the entire country happened through the YES bank Moreover, the money deposited in this bank. It's Headquarter is in Mumbai & it rose to become India's fourth-largest private bank, co-founded by Rana Kapoor and Ashok Kapoor. Rana Kapoor served as Managing Director/CEO, while Ashok Kapoor was Chairman. Initially, Rana Kapoor held a 36% stake, and Ashok Kapoor owned 11%.

Following Ashok Kapoor's tragic death in the 2008 Mumbai terrorist attacks, a protracted legal dispute ensued between Rana Kapoor and Ashok's wife, Madhu Kapoor, regarding board appointments and control. Rana Kapoor ultimately won the case, securing control over the bank's operations and board.

Under Rana Kapoor leadership, Yes Bank significantly expanded its lending, including to MSMEs (Micro Small and Medium Enterprises), often acting as a "lender of last resort" for struggling companies. This aggressive lending strategy, however, negatively impacted profitability and led to a sharp increase in non-performing assets (NPAs). By September 2019, the bank reported a loss of ₹600 crore, and gross NPAs surged to 7.4%, a substantial rise from the previous quarter. To prevent the bank's collapse, the Reserve Bank of India (RBI) intervened on March 5, 2020. The RBI imposed a 30-day moratorium to protect customers and depositors and suspended the existing board. The bank failed to raise new sources of finance to recover the amount of bad loans and hence the Central Bank of the country restricted the customers of accused Bank to withdraw money from their accounts subjected to a maximum limit of 50,000 per month except under the emergency or exceptional circumstances. The Governor of RBI, Shakthikanth Das promised the customers that the prevailing issue of Yes Bank would be resolved as soon as possible. Even the Finance Minister Nirmala Sitharaman drafted a proposed plan and asked SBI to take a majority of 49% stake in Yes bank and to create new Board committee. The results of Moratorium caused huge disruptions and unfavourable consequences on the customers and hence on 13th March 2020, Union cabinet passed a new resolution bill in favour of bank depositors that Moratorium would be lifted after the 3 days of notification of the scheme. As per the Reconstruction scheme the prominent investors namely SBI, ICICI bank, HDFC bank, Axis bank, Kotak Mahindra bank, Rakesh Jhunjhunwala, Radhakrishnan Damani and Azim Premji Trust invested a significant share of 12,000 crores into the bank and currently Mr. Prashant Kumar is appointed as an Administrator of the bank.

The Yes Bank case study is a significant event in Indian banking history, highlighting the critical importance of corporate governance and regulatory oversight. Here's a breakdown of the key aspects:

Key Events and Issues highlighted:

- **Rapid Growth and Aggressive Lending:**
  - Yes Bank experienced rapid growth, driven by aggressive lending practices, particularly to corporate clients, including those in sectors like infrastructure and real estate.
  - This "high-risk, high-return" strategy, while initially successful, ultimately led to significant problems.

- **Rising Non-Performing Assets (NPAs):**
  - The bank's loan portfolio deteriorated, with a substantial increase in NPAs, indicating that many borrowers were unable to repay their loans.
  - There were also allegations of underreporting these NPA's.
- **Governance Failures:**
  - Concerns arose regarding corporate governance, with allegations of mismanagement and fraudulent loan approvals.
  - The role of the former CEO, Rana Kapoor, came under intense scrutiny.
- **Regulatory Intervention:**
  - The Reserve Bank of India (RBI) intervened to prevent the bank's collapse, imposing a moratorium on withdrawals and taking control of the bank's management.
  - The RBI's actions were aimed at protecting depositors and stabilizing the financial system.
- **Legal Proceedings:**
  - The Enforcement Directorate (ED) and other agencies launched investigations into allegations of money laundering and fraud.
  - Rana Kapoor was arrested, and legal proceedings ensued.
- **Restructuring:**
  - The State Bank of India (SBI) played a key role in the bank's restructuring, providing financial support.

Key Takeaways:

- **Importance of Corporate Governance:** The case highlights the critical importance of sound corporate governance practices in the banking sector.
- **Risk Management:** It underscores the need for banks to maintain robust risk management systems to prevent excessive risk-taking.
- **Regulatory Oversight:** The RBI's intervention demonstrates the importance of effective regulatory oversight in maintaining financial stability.
- **Impact on Stakeholders:** The crisis had a significant impact on depositors, investors, and the overall confidence in the banking system.

In essence, the Yes Bank case serves as a cautionary tale about the dangers of unchecked growth, poor risk management, and inadequate corporate governance.

WHY DO BANKS FAIL?

After every crisis, this question is asked by regulators, politicians, bank managers, customers, investors, and academics, hoping that an answer can help improve the stability of the financial system and/or prevent future crises. Although a broad body of research has been able to provide a number of answers to this question, many aspects remain unresolved. The recent financial crisis suggests that the knowledge gained about bank failures is apparently still not sufficient to prevent large numbers of banks from failing. Our results confirm the extant bank failure literature by finding that accounting variables such as the capital ratio, the return on assets, and the proportion of loans that are nonperforming help predict bank failure. Our key new finding is that the ownership structure of a bank is also an important predictor of bank failure. In case of YES Bank we will see how ownership structure lead towards the bank failure. Specifically, we find that larger shareholdings of lower-level management and non-CEO higher level management significantly increase banks probability of failure. Interestingly, the shareholdings of the CEO appear to have no direct impact on a bank's failure probability.

It had more than 2 lakh crore worth of deposits. It had more than 18000 employees. In simple term it was a huge private bank.It is said that the Rana Kapoor, who had been running the YES bank his behaviour entailed aggressively giving loans at high interest rates and he was giving loans to people who had very low chances of repaying them.So Rana Kapoor was playing a very high risked game UBS is a global financial services company.

It pointed in 2015 that the accelerated growth of YES bank is happening because they have been giving loans to stressed companies Stressed companies refer to those companies that have a high risk of non-repayment of loans.

So, by now you may have understood that the major reason behind the crisis of the YES bank is the same- Bad loans and NPAs Loans are given to people and companies that cannot repay them back and these loans become bad loans/NPAs. The meaning of NPAs is Non-Performing Assets If the repayment of anyone's loans is delayed by 90 days or more, then it becomes an NPA. The NPAs of the YES bank kept rising gradually and in 2017, the Reserve Bank of India noticed this too and they started monitoring the YES bank more strictly Infact, not only did the Reserve Bank of India notice the rise of NPAs but they also saw that the YES bank was concealing its real NPAs. That is, it has even more NPAs than it admits They (RBI) saw a difference of 3,000 crores between the actual figures and the fake figures stated by them In September 2018, the RBI ordered that Rana Kapoor would have to vacate the chair of the CEO. Rana Kapoor ceased the CEO of Yes bank after January 2019 and In November 2018, a chairman and two independent directors of the bank resigned.

All along this, the ratings of the bank continued to fall down steadily A rating Firm- CARE Ratings Firm accorded a very bad rating to YES bank Another reputed ratings firm, Moody's degraded the outlook of YES bank from stable to negative In March, 2019, Ravneet Gill became the new CEO of the bank But, the problems had grown so much that the YES bank posted its first ever quarterly loss in April 2019.

Rana Kapoor sold away almost all his shares of the YES bank Their total value was 142 crores The selling of stocks by Rana Kapoor was seen as the final warning as he was the one who used to say that the shares of the Yes Bank is like diamond for me and I will never share these shares and I will gift these shares to my daughters and then to the children of the daughters and will tell them to never sell these shares as diamonds are meant to kept forever.
After this, the stock of this bank fell and so did the sensex News came around that SBI might buy this bank. Then, the stock of SBI fell, too.

Financial Literacy Programs The financial literacy programs implemented in India exemplify a praiseworthy initiative undertaken by the government to strengthen the financial knowledge and skills of the general population. These efforts have been developed with the objective of enhancing individuals' understanding of prudent financial practices and raising awareness about the potential risks associated with fraudulent activities, in order to promote informed decision-making in personal finance. The government aims to enhance the capabilities of individuals by promoting financial literacy, thereby equipping them with the necessary skills to effectively go through the complex realm of financial transactions. This undertaking holds significant importance in a country like India, characterized by its diversity and economic disparities, where degrees of knowledge may fluctuate across various regions. These programs play a crucial role in cultivating financially aware people, advocating for good financial conduct, and eventually contributing to the overall economic prosperity of the nation.

CONCLUSION:

It is very evident from the research study that the founder of Yes Bank has misappropriated the funds of the customers' existing in their bank accounts for some illegal and fraudulent purpose. The public money had been mis utilized by the corrupt Chief executive in order to purchase the debentures of DHFL in which he had interest in the form of kickbacks provided by Kapil Wadhawan, the Chairman of debenture Issuer Company. The fraud and concealment of the origins of money borrowed made by the key person had unfavourable consequences and undesirable effects on the customers and consequently developed disruptions/ interruptions in the E-commerce operations of customers and service providers operating with this bank. The deception committed by Yes bank had greater impact on its customers which prevented them from access to their own money as some restrictions were put forth by RBI beyond the maximum limit of 50,000 per month, which in reality shook the confidence and faith of depositors kept on bank and they faced several hindrances during the cases of financial emergency. All that reason to this would be the kingpin who made default in complying with the norms and guidelines of RBI as regards lending of loans and maintenance of NPA's. The study makes everyone remember the line as the saying goes like "Things gained through unjust fraud are never secure", which means the wealth or asset obtained on a sham basis never lasts for a longer time and the guilty would be held responsible for all the illegal acts committed by him against the society. The investigation of the scam reveals the fact that the bank failed to uphold the corporate governance machinery which paved the way for the arrest of its founder by the Enforcement Directorate (E.D) for his criminal offense. Finally, to conclude the scam of Yes Bank is successfully resolved by the honourable Finance Minister Nirmala Sitharaman as she directed the SBI to make intervention into Yes Bank and all its current employees are freed from the fear of losing their jobs owing to the financial inadequacy condition of bank and even account holders are too guaranteed with the safety of their money being locked in the accounts of Yes Bank.

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