Yes Bank Crisis

Why in News?

The Reserve Bank of India (RBI) has placed the financially troubled Yes Bank under a moratorium (temporary suspension).

What happened after this?

- After placing this bank under a moratorium, the RBI announced a **draft 'Scheme of Reconstruction'**.
- This scheme entails the State Bank of India (SBI) investing capital to acquire a 49% stake in the restructured private lender.
- Yes Bank's stock tumbled that eroded shareholders' holdings and dragging the 10-bank S&P BSE Bankex down with it.
- This is an indicator of the contagion risk that a sudden bank resolution can pose to the financial system.
- So, the enthusiasm with which the bailout has been proposed is praiseworthy.

Why the lender was hit hard?

- Yes Bank's problems with mounting bad and illegal loans reflect the underlying woes in the borrower industries.
- The continued inability of many corporate to repay their loans has resulted in many landing up in **insolvency proceedings**.
- This has meant that lenders have been the hardest hit.
- It has suffered a **doubling in gross non-performing assets** over the April-September period, even as it scrambled to raise capital to shore up its balance sheet.
- With the economy in the throes of a persistent slowdown, the prospects of banks' burden of bad loans easing soon are limited.

- The lender has been ended up at the resolution stage, without being placed under the Prompt Corrective Action (PCA) framework of the RBI.
- This raises a question over how and why the bank escaped the PCA that was

a tailor-made solution to address weakness at banks.

How did the lender escape the PCA framework?

- The lender's stated operational metrics had not breached the pre-set thresholds for triggering the PCA action.
- But, the central bank had flagged several concerns in recent years.
- This also includes the concern of the distinct divergence between the reported and RBI's own findings on the financials of the bank.
- This could be a good opportunity for the RBI to **review its PCA** guideposts and revise them to ensure that such a slipping under the radar does not recur.

Why SBI has been chosen as an investor?

- The choice of SBI as the investor to effect the bailout reflects the scarcity of options with the government.
- Several other public sector banks are also currently engaged in merging with weaker peers as part of the Centre's plan.

Source: The Hindu