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Institute of Management & Research, PGDM Institute
Greater Noida
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Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2024-26)

MID TERM EXAMINATION (TERM -III)

Subject Name: **Banking, Financial Services & Fintech**

Time: **01.00 hrs** Time: **01.00 hrs**

Sub. Code: **PGF33** Max Marks: **20**

Note: All questions are compulsory.

Section -A

Read the following use-case and answer the following questions: 10×2 = 20 Marks

Case Study: The Case of Yes Bank: Growth, Crisis, and Revival

Background

The Indian banking system has undergone a massive transformation over the past two decades. With the introduction of digital banking, fintech collaborations, and regulatory reforms, banks have had to adapt to maintain competitiveness while ensuring compliance with strict Reserve Bank of India (RBI) guidelines.

The Case of Yes Bank: Growth, Crisis, and Revival

Yes Bank was founded in 2004 by Rana Kapoor and Ashok Kapur, positioning itself as a high-growth, technology-driven private sector bank. By the 2010s, Yes Bank had gained a reputation for its aggressive lending practices, particularly to mid-sized and large corporations, including real estate firms and infrastructure companies. The bank differentiated itself by offering quick loan approvals and innovative financial products.

Aggressive Growth and Governance Issues (2014-2018)

Yes Bank rapidly expanded its loan book, often lending to high-risk companies that struggled to get funding from other banks. Yes Bank provided significant loans to financially stressed firms like IL&FS, DHFL, Jet Airways, and Reliance ADAG Group. Many of these borrowers later defaulted. The Reserve Bank of India (RBI) found that Yes Bank had significantly underreported its non-performing assets (NPAs) multiple times. In 2015-16, the RBI flagged an underreporting of bad loans by ₹4,176 crore.The bank's risk assessment mechanisms were weak, leading to high exposure to stressed sectors. Founder Rana Kapoor was accused of giving out loans in exchange for kickbacks. His leadership style prioritized rapid growth over financial prudence.

The Crisis (2019-2020)

By 2019, Yes Bank was in deep trouble:

- Its financials deteriorated due to rising NPAs, which eroded investor confidence.
- Depositors started withdrawing funds, triggering a liquidity crisis.
- The stock price collapsed by over 85% within a year.
- The bank failed to raise fresh capital, further worsening its financial position.
- In March 2020, the RBI imposed a **moratorium**, capping withdrawals at ₹50,000 per account to prevent a run on the bank.

The Rescue Plan (March 2020 Onward)

The RBI had to formulate a rescue plan led by the State Bank of India (SBI) and other lenders. The State Bank of India (SBI) took a 49% stake in Yes Bank, investing ₹7,250 crore. Other banks, including ICICI Bank, HDFC Bank, and Axis Bank, also contributed. Rana Kapoor was arrested on charges of money laundering, and new leadership was brought in. The bank focused on cleaning its balance sheet, cutting exposure to risky assets, and improving governance. By 2023, Yes Bank had stabilized, rebranded itself, and started expanding cautiously.

While Yes Bank's restructuring stabilized the situation, it raised critical questions about regulatory oversight, risk management, and the balance between aggressive expansion and financial prudence.

The Dilemma: Embracing Innovation vs. Managing Risks

Fast forward to 2024, Indian banks are under pressure to embrace fintech innovations such as AI-driven lending, blockchain-based payments, and digital-only banking models. While these technologies promise efficiency and inclusion, they also pose risks related to cybersecurity, data privacy, and regulatory compliance.

You are part of the strategic decision-making team of a mid-sized Indian private bank. The bank is considering launching a fully digital banking service in collaboration with fintech startups. However, the RBI has recently introduced stricter digital banking norms, increasing compliance requirements.

Discussion Questions:

1. Based on the Yes Bank crisis and the current scenario, what strategies should Indian banks adopt to strike a balance between innovation and risk management to ensure financial stability? CO1
2. Explain the structure of the Indian banking system and the role of RBI in regulating different categories of banks. CO2