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The exodus: Major exits banking sector saw in 2018

BY ET BUREAU | UPDATED: DEC 26, 2018, 07.22 AM IST

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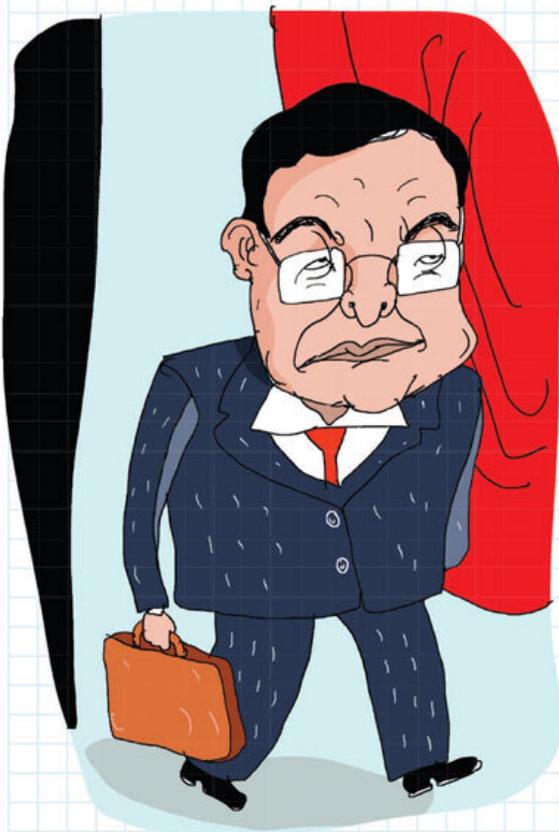
Governments go midway, not governors. But he did this year.

Big Change:

The end of Five-Year Plans: All you need to know

For the second time in the history of independent India, a Governor of the Reserve Bank of India left office nine months ahead of his scheduled departure. Benegal Rama Rau was the first to exit in 1957, having clashed with his finance minister TT Krishnamachari over territory. Six decades later, another governor put in his papers, ostensibly for reasons that are described as personal.

Governor [Urjit Patel](#) sent out a terse statement on the evening of December 10 — four days ahead of a scheduled meeting of the regulator's board — that he is stepping down for personal reasons. A section of the political class viewed the exit as an encore to the Rau-Krishnamachari episode, regardless of Patel's note.



“ There has been a tendency in the pronouncements post revelation of the fraud that RBI's supervision team should have caught it. While that can always be said ex post with any fraud, it is simply infeasible for a banking regulator to be in every nook and corner of banking activity to rule out frauds by being there”

Urjit Patel on PNB scam

Tensions between the Governor and New Delhi have been brewing since the Punjab National Bank scam involving Nirav Modi's Rs 13,000-crore swindle came to light. While the government blamed the lack of accountability on the regulator, the central bank argued that Mint Road did not have sufficient powers when it came to lenders owned by the governor's boss — the central government.

As that memory faded and the election year approached, the government that is being criticised in some quarters for not creating enough jobs got into the act. The collapse of Infrastructure Leasing & Financial Services and the resultant liquidity freeze drove the urgency.

When the normal requests and nudge from the government to Mint Road to attend to issues on liquidity and credit did not yield the desired results, New Delhi used the hitherto unused Section 7 of the Reserve Bank of India Act to consult and direct the central bank on what it desired.

“ Today the tragedy is, I have had the best relation with two Governors (Raghuram Rajan and Urjit Patel). I still am in active communication with both of them, even post-exit from RBI”

Arun Jaitley after Patel's resignation

Few dispute the fact that Patel was rigid, but that may have also been essential in pushing some prudent measures, including not yielding to the noise over a 'special liquidity window' for non-banking finance companies.

When the Governor was not seen to be yielding to any of the demands that



might have been considered essential for the industry to tide over the trumpeted crisis, the inevitable happened.

When the Board for Financial Supervision met, the RBI yet again declined to do much to let the weak banks resume lending.

The stage was set, therefore, for invoking Section 7 to give directions to the RBI through the board, and the governance structure was set to undergo a change wherein independent members of the board, with various business interests, being given a legitimate voice to shape policy.

In about three weeks after that mid-November meeting, Patel became a former governor.

Top Banker Exits:

Chanda Kochhar

ICICI Bank CEO Chanda Kochhar bid goodbye in October to the bank, her second home for three decades, following a probe that did not end quickly enough, so that she could have continued. For the first time, a sitting CEO of a private sector bank faced charges of quid pro quo in sanctioning loans for business benefits to companies owned by her spouse. It was alleged that she had influenced a Rs 3,250-crore loan to the Videocon group in 2012 in return for a deal in NuPower Renewables, a clean energy firm run by her husband

Deepak Kochhar.

Kochhar quit before the inquiry on her role could be completed by retired Supreme Court judge BN Srikrishna. She had gone on indefinite leave in June as an inquiry against her was initiated by the bank's board. Her departure, in a way, marked the end of women power in high finance that she had come to signify in the last decade. She was succeeded by group veteran Sandeep Bakhshi.



Shikha Sharma

At the start of 2018, Sharma was firmly in the CEO seat at Axis Bank, having got the board's approval for another three-year term starting June 2018, which would have seen her lead the bank until 2021. But fate had it otherwise. In what came as a shock to the industry, for the first time in recent memory, the RBI had turned down another term for a sitting CEO. Although the regulator did not disclose why it did so, it was speculated that bad loans provisioning was not up to mark and when the regulator did its own inspection, the bank had to declare more loans as bad. This was called 'divergence' — the difference between what the bank declared as bad loans and what the regulator categorised so.

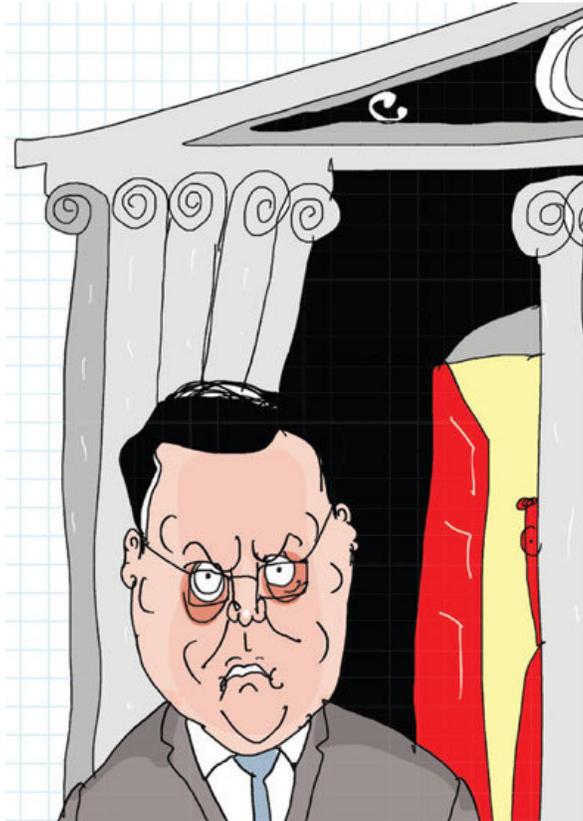
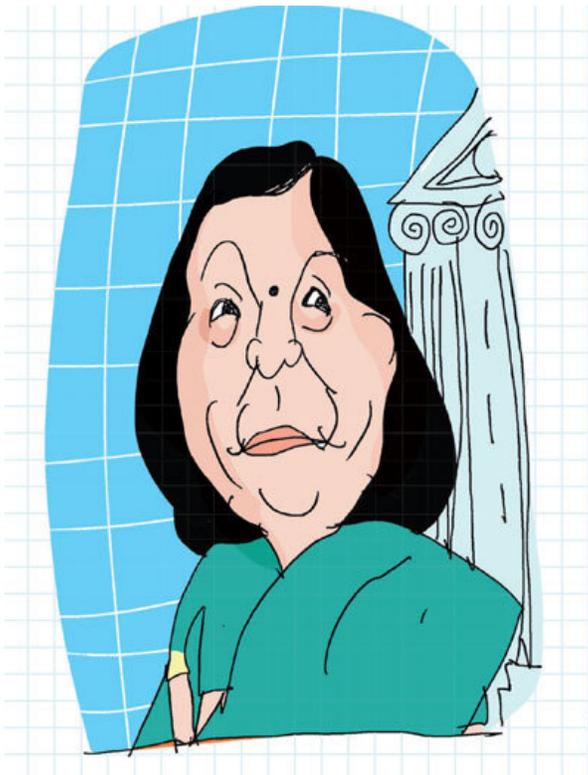
She requested her term be cut short to December 2018 from May 2021. Under Sharma, Axis Bank made the crucial tilt toward retail banking, and acquired Enam Securities to make it a universal bank aimed at rivalling her alma mater ICICI Bank. Although she managed to get \$1.60 billion from Bain Capital in what appeared to be a token of faith in her leadership, the regulator didn't yield. Sharma's term saw bad loans rise to 5.28% from 1.23% in

December 2010. Assets also rose to Rs 7.30 lakh crore, from Rs 2.06 lakh crore in the same period. Kotak Mahindra Bank is supposed to be interested in acquiring Axis. Sharma in her term made it an attractive target for the billionaire banker.

Rana Kapoor

The indomitable spirit of Rana Kapoor, the founder chief executive officer of Yes Bank, was tested in 2018. Although the RBI had already turned down the extension of a CEO's term (Shikha Sharma of Axis Bank), few thought it could happen with Kapoor. While the bad loans were the reason for RBI turning down Sharma's candidature, for Kapoor it was something else — business practices under his watch. He had weathered many a storm in 14 years as the CEO of Yes Bank, most notably the death of co-founder Ashok Kapur and

litigation with sister-in-law Madhu Kapoor over the role.



He, however, could not escape the RBI's wrath because of divergence in the bank's reported NPAs and those assessed by the central bank for two successive years. In FY16, Yes Bank reported gross NPAs at Rs 748.9 crore, while as per RBI's assessment, that should have been Rs 4,925 crore, resulting in a divergence of Rs 4,176.7 crore. In FY17, the bank reported gross NPAs of Rs 2,018.6 crore while in RBI's

calculation, those should have been Rs 8,373.8 crore, resulting in increased divergence of Rs 6,355.2 crore. This divergence also put the spotlight on the bank's succession plans. Yes Bank is now preparing to begin a new life without Kapoor in the corner office.

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