Fair Finance India

FAIR FINANCE INDIA

BANK POLICY ASSESSMENTS 2020

ANALYSING ESG POLICIES, DISCLOSURES AND COMMITMENTS OF BANKS IN INDIA

CITATION GUIDELINE

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GLOSSARY

BRR	Business Responsibility Report
BRSR	Business Responsibility and Sustainability Report
CEDAW	Convention on the Elimination of all forms of Discrimination Against Women
CRC	Convention on the Rights of the Child
ESG	Environment, Social and Governance
FFGI	Fair Finance Guide International
FI	Financial institution
FIAP	Financial Inclusion Action Plan
GHG	Green House Gases
GPFI	Global Partnership for Financial Inclusion
GRI	Global Reporting Initiative
IBA	Indian Banks' Association
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
IPCC	Intergovernmental Panel on Climate Change
IUCN	International Union for Conservation of Nature
MNEs	Multi National Enterprises
NAP	National Action Plan
NDCs	Nationally Determined Contributions
NGRBC	National Guidelines for Responsible Business Conduct
NPA	Non-Performing Assets
NVG	National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
NVGRF	National Voluntary Guidelines on Responsible Financing
OECD	Organisation for Economic Co-operation and Development
RBI	Reserve Bank of India
SEBI	The Securities and Exchange Board of India
SDGs	Sustainable Development Goals
TCFD	Task force on Climate Related Financial Disclosures
UDHR	Universal Declaration on Human Rights
UN CBD	UN Convention on Biological Diversity
UNFCCC	United Nations Framework Convention on Climate Change
UNEP	UN Environmental Programme
UNEP-FI	United Nations' Environment Programme Finance Initiative
UNGPs	UN Guiding Principles on Business and Human Rights
UNPRI	UN Principles for Responsible Investment

EXECUTIVE SUMMARY

While 2020 will be written down in history, 2018-19 was a special year for the Indian economy too- GDP was at its lowest in 7 years at 4.5%[1] and unemployment rate reached 6.1%, the worst in 45 years.[2] Several sectors such as real estate, aviation, automobile and construction sectors suffered a constant decline in demand. Similarly, the banking and financial services sectors witnessed serious crisis due to rising NPAs & bad loans and squeezing credit limits.[3]

Not responding much to this crisis, the government focussed its attention towards the 5 trillion economy goal - India's Corporate Tax Rate was slashed to 22%, 10 public sector banks were merged into one entity, 3 PSU General Insurance Companies were merged into single insurance entity, Rs 1,76,051 crore were transferred by the RBI as its Surplus to the Central Government, and 33 Central Public Sector Enterprises were decided to be disinvested by the government. These steps seem to be more friendly towards the businesses, focussing more on the 'Profit' aspect of the triple bottle line, and missing out on People and Planet. Such steps are bound to have an impact on the economy and all the linked stakeholders across the value chain of businesses, including employees as well as local communities.

Since no development is possible without a sound financial system supporting it, the spotlight is now on aligning the financial system with sustainable development. Banks are custodians of large sums of money, and by choosing to fund projects that are environmentally and socially sustainable, they can have a positive impact not only on the people and the planet, but also increase their profits in the long run. The pandemic has further strengthened the argument on the need for more sustainable investments, with ESG funds proving to be more resilient than other funds. Such resilient performance despite unruly markets gives us a hint about why investors are convinced about ESG funds.[4] There is a need for financial institutions to understand and absorb this change and to be more innovative and sensitive in their approach, especially in their lending practices to corporates.

For the same, however, it is equally important to have a facilitating environment, that can be demonstrated by the policies set forth by regulators. However, the steps being taken by Indian regulators in the recent past look more regressive and hold less transparency and accountability. The financial sector is in turmoil, and rather than using long terms and sustainable approaches, short term techniques such as mergers are being used to bail out financial institutions. Even though such mergers increase the profits of the final entity, they also add up the bad loans and debts. It is high time now that Indian regulators acknowledge the use of ESG standards by financial institutions. Even though some global standards and initiatives, such as the UN Principles on Responsible Investing and UN Global Compact, would be a good starting point, having guidelines contextualised according to economy and needs are much needed.

This assessment can serve as a baseline that enables the Indian banking sector to prepare itself for facing and addressing challenges of sustainability. It also provides an opportunity for Indian banks to assume the leader's role in transforming the Indian banking sector to set a benchmark for sustainable, responsible and fair finance. Fair Finance Guide International (FFGI), an international civil society network active in 11 countries, seeks to strengthen banks' and other financial institutions'

1 https://www.jagranjosh.com/current-affairs/top-13-economic-developments-how-indian-economy-fared-in-2019-1577793853-1

2 https://www.indiatoday.in/diu/story/cold-wave-hits-indian-economy-in-2019-a-snapshot-in-5-charts-1632931-2019-12-31

3 https://www.jagranjosh.com/current-affairs/top-13-economic-developments-how-indian-economy-fared-in-2019-1577793853-1

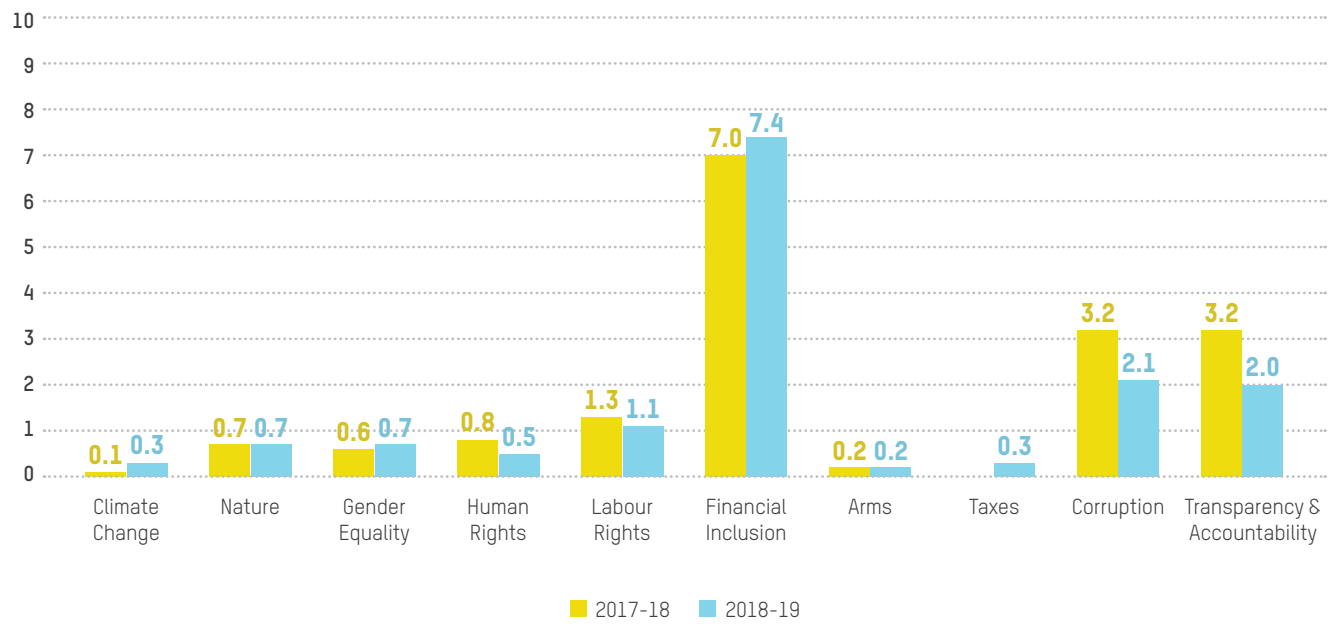
4 https://www.cnbctv18.com/views/socially-responsible-funds-the-rise-and-importance-of-esg-investing-in-india-8317551.htm

commitment to social, environmental and human rights standards. For this assessment, the Fair Finance India coalition selected a sample of eight Indian banks (public and private). The banks are: Bank of India, Federal Bank, HDFC Bank, IDFC First Bank (previously called IDFC Bank), Indian Overseas Bank, Punjab National Bank, State Bank of India and Yes Bank.

The assessment was based on 10 FFGI themes under three categories– Environment – Nature and Climate Change; Social – Labour Rights, Human Rights, Gender Equality, Financial Inclusion and Arms; Governance – Transparency and Accountability, Corruption and Tax.

The trend has been very similar to that of last year. Assessed banks have scored highest on the themes of Financial Inclusion followed by Corruption, and Transparency and Accountability. They have scored very poorly in the Environment theme, which includes Climate Change and Nature. They have also scored low on some themes in the Social category especially Gender Equality, Human Rights, Labour Rights and Arms.

FIGURE 1: AVERAGE SCORES OF EIGHT BANKS ACROSS THEMES



BACKGROUND

Year 2020 has brought forth several instances of widespread human rights violation by businesses within their global value chains. The infamous Vizag gas leak tragedy was a reminder of the need for businesses to evolve beyond corporate social responsibility by streamlining business activities with ESG parameters to ensure long terms credibility. The current global emergency of Covid-19 has accentuated the urgent need for businesses and financial institutions to assess the impact of their operations on not only the environment but also on the society as a whole. Several studies, including a recent report called 'Sustainable Investment Action in India' launched by Oxfam India and cKinectics, highlights how ESG investing is increasingly becoming desirable (globally) not only because it provides the much required impetus to corporate responsibility but also because it is performing better (in terms of ROI) as compared to some of the conventional investing options.[5] The growing participation in the ESG investment space can be gauged by the launch of two ESG funds by SBI and ICICI, with Kotak Mahindra being next in the queue.[6]

Apart from being a nation's economic enabler in terms of infrastructure development and flow of commodities, role of financial institutions has only expanded in the post-COVID era. In his recent remarks, the RBI Governor has once again emphasized the role of banks in terms of strengthening their lending capacities and contribute into the revival of the economy.[7]

Given the known and significant importance of financial institutions and businesses in achieving Sustainable Development Goals, legislations and frameworks such as the United Nations Guiding Principles[8] (UNGPs) launched in 2011 by the UN Human Rights Council have assumed greater significance in the current times. The Sustainable Development Goals (SDGs) launched in 2015 clearly articulate the role of businesses in achieving these goals by 2030. In the financial sector, frameworks such as the UN Principles for Responsible Investment (launched in 2006), Equator Principles (revised in 2006 to align with the IFC Performance Standards), IFC Performance Standards, OECD Guidelines for Multinational Enterprises – Responsible Business Conduct Matters and most recently UNEP Principles for Responsible Banking continue to serve as significant frameworks/ guidelines.

Following the launch of the UNGPs and increasing trends of Environment, Social, and Governance (ESG) investing, India has been making significant inroads towards a more conducive ecosystem for responsible businesses. In 2011, the government of India formulated and launched the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business[9] that proved to be a landmark initiative for more sustainable and responsible financing and investing initiatives to follow. The NVGs were developed in line with the provisions of the UNGP framework and the Sustainable Development Goals. This was followed by the Securities and Exchange Board of India (SEBI) developing the Business Responsibility Reporting (BRR)[10] framework and making it a part of the listing obligations for the top 100 companies (extending it to top 1000 in

5 https://www.oxfamindia.org/knowledgehub/workingpaper/sustainable-investment-action-india

6 https://indianexpress.com/article/explained/explained-what-are-esg-funds-and-why-are-they-becoming-popular-6619234/

7 https://www.financialexpress.com/industry/banking-finance/rbi-guv-ask-banks-to-strengthen-lending-capacity-by-raising-capital/2156310/

8 https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

9 2011. National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business. Ministry of Corporate Affairs. Available at: http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf (accessed on 07 July 2019)

10 The Business Responsibility Report (BRR) is aligned with the nine principles of the National Guidelines on Responsible Business Conduct (NGRBC) as commissioned by the Ministry of Corporate Affairs.

2019[11]) listed on Indian stock exchanges. In response to the NVGs and BRR, the Indian Banks' Association (IBA) formulated and published National Voluntary Guidelines for Responsible Financing (NVGRF),[12] in which four intrinsic components are defined – good governance, strong emphasis on capital preservation and its quality, effective risk management and proactive social and environmental interventions through investing and lending.[13]

Recently, the NVGs were replaced by the National Guidelines on Responsible Business Conduct (NGRBC),[14] which, like its predecessor, has clear implications for banks and other financial institutions as well as all other types of businesses. India is also in the process of developing a National Action Plan (NAP) on business and human rights, a draft of which has already been released by the Ministry of Corporate Affairs.[15]

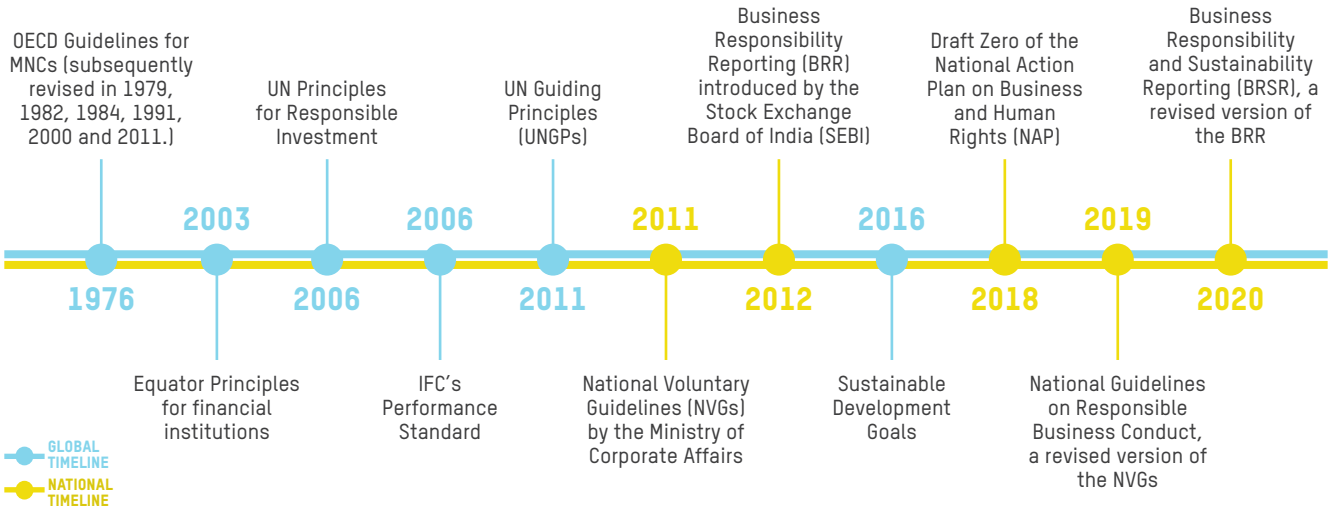
In addition, SEBI in 2021 launched the Business Responsibility and Sustainability Report (BRSR) framework that provides guidelines for the preparation of Business Responsibility Report for listed and unlisted companies in India. The objective is to enable greater transparency in the private and financial sector of the country. The BRSR framework uses a two-format approach:

i. *Comprehensive BRSR:* developed for the top 1000 companies listed in India and may be extended to several unlisted companies that meet specified thresholds of turnover and/or paid-up capital) and

ii. *BRSR Lite*: developed for unlisted companies unfamiliar with the preparation of sustainability reporting. The BRSR Lite format envisages inclusion of unlisted companies encouraging them to begin sustainability reporting as it is easier for all companies to adopt this format.

The Reserve Bank of India acknowledging ESG risk assessment as an important way to ensure banks' long term sustainability is indeed a welcome move.[16]

GLOBAL AND NATIONAL POLICY DEVELOPMENT TIMELINE



11 https://www.moneycontrol.com/news/business/business-responsibility-reports-mandatory-for-top-1000-listed-companies-sebi-4659321.html

12 https://www.iba.org.in/reports/national-voluntary-guidelines-for-responsible-financing_290.html

13 2016. National Voluntary Guidelines for Responsible Financing. Indian Banking Association. Available at: https://www.iba.org.in/reports/national-voluntary-guidelines-for-responsible-financing_290.html (accessed on 02 July 2019)

14 The NVGs were revised by the Ministry of Corporate Affairs and were re-introduced as the National Guidelines on Responsible Business Conduct in March 2019.

15 http://mca.gov.in/Ministry/pdf/NationalPlanBusinessHumanRight_13022019.pdf

16 https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0RBIAR201920DA64F97C6E7B48848E6DEA06D531BADF.PDF

INTRODUCING FAIR FINANCE GUIDE

FAIR FINANCE INTERNATIONAL

Fair Finance International (FFI) is an international civil society network of 70 CSOs, initiated by Oxfam, that seeks to strengthen the commitment of banks and other financial institutions to social, environmental and human rights standards.

As a global network we use a rigorous methodology to assess, report on, and campaign for more responsible investment policies & practices. By benchmarking the investment policies and practices of financial institutions in critical areas such as human rights and climate impact, we enable consumers and policy holders to demand more socially responsible, fair, and sustainable investments for bringing about positive change in the ways the financial sector invests.

FFI is currently active in 13 countries: Belgium, Brazil, Cambodia, Germany, India, Indonesia, Japan, Netherlands, Norway, Philippines, Sweden, Thailand, and Vietnam. In every country, a coalition of civil society groups with expertise in areas relevant to monitoring and assessing the financial sector, often including development and human rights organisations, labour unions, environmental groups, and consumer organisations, among others, operate under the umbrella of FFI.

ABOUT FAIR FINANCE GUIDE

The Fair Finance Guide (FFG) is an assessment methodology and scoring system based on existing international standards and conventions as well as a range of other widely accepted guidelines in areas pertaining to responsible businesses (image)

Fair Finance Guide's themes are in broad alignment with the Sustainable Development Goals. The FFG themes are grouped into three categories: cross-cutting, sector and operational. The cross-cutting and sectoral themes are largely, though not entirely, focused on the conditions, if any, that financial institutions place on companies that they lend to; whereas cross-cutting themes apply across sectors, sectoral themes are specific to particular sector. The operational themes are focused on the financial institutions 'internal policies. Of the 23 themes, nine are core themes, meaning that FFGI coalitions must include these themes as part of their assessment of banks.

Policy assessment using the FFG methodology focuses on a financial institution's expectations of investee companies' and/or clients' behaviour. In addition, some policies and procedures relating to internal domains of financial institutions are also assessed. Fair Finance International expects that the policy of the financial institution, or at least a summary of it, is made public, for example through their website or in the annual report. The name or topic of the policy document is not relevant, for example elements on labour rights can be included in a human rights policy. When comparing the policies of financial institutions, Fair Finance International does not assess the way the financial institution takes decisions on its investments and financial services, but the underlying principles. An exception to this rule is the assessment of elements that are formulated for operational themes, such as Transparency and Accountability, because these elements largely concern the business operations of the financial institution. Essentially, the score arrived at for each theme is the number of elements included in the policy documents, the website or annual report of a financial institution, divided by total number of elements expected.

FAIR FINANCE ASIA

Fair Finance Asia is a regional network of Asian CSOs committed to ensuring financial institutions only fund businesses that respect communities' social and environmental well-being. The network currently includes 70 CSOs across 7 countries including coalitions in Japan, Indonesia, Thailand, India, Cambodia, Vietnam, and Philippines.

FAIR FINANCE INDIA

Fair Finance India is a civil society led coalition working towards ensuring a sustainable financial sector in the country. Fair Finance India stimulates greater transparency and accountability in the financial sector by encouraging the integration of human rights standard and ESG criteria in the policies of banks. The Fair Finance India coalition believes that transformational changes in policies and practices can end poverty and extreme inequalities. This can be achieved only with an active and engaged civil society working with multiple stakeholders. This can also strengthen the financial sector in India to ensure that due diligence is done by banks for corporate investments and lending. It integrates and prioritises ESG factors and human rights standards in policies and practices. Fair Finance India is a part of both of the Fair Finance Asia regional network as well as Fair Finance Guide International. At present, the India coalition consists of 9 members namely – Oxfam India, Partners in Change, OpenSpace, Environics Trust, Cividep India, Praxis, Traidcraft Exchange, HRF (Human Rights Advocacy and Research Foundation), and LCW (Land Conflict Watch).

FAIR FINANCE INDIA 2ND POLICY ASSESSMENT OF FINANCIAL INSTITUTIONS: METHODOLOGICAL NOTE

SAMPLING

FIGURE 2: NAME OF THE BANKS ASSESSED IN THE POLICY ASSESSMENT

BANK OF INDIA	Federal Bank
HDFC Bank	IDFC First Bank (previously called IDFC Bank)
Indian Overseas Bank	Punjab National Bank
State Bank of India	Yes Bank

In order to maintain consistency and comparability with last year's policy assessment this year, too, the same eight banks were assessed. The underlying principles, too, remain the same - to include representation from both public and private sector banks; to balance the focus and nature of the assessment with the need to ensure diversity and representativeness; to ensure that banks with significant project finance and corporate lending and risk exposure in their business models are included as these are areas of key interest for Fair Finance India. A need for purposive criteria for selecting banks was felt to include commitment to sustainability and a footprint within the Asian region. Additionally, among the optional themes, financial inclusion was selected as an additional theme for assessment as it was deemed to be highly relevant to the Indian financial sector and to national policy priorities.

POLICY ASSESSMENT

The assessments focus on responsible and sustainable banking, i.e., the extent to which financial institutions integrate various progressive conditions in their financing of companies and individual projects. It expects that a financial institution's policy, or at least a summary of it, is made public, for example, through its website or in its annual report, sustainability report or any other publically available document. For the assessment, information and policies that are available publicly such as annual reports and sustainability reports (for the Financial Year 2018-19) as well as content in the policies and website were considered. These assessments went through two rounds of validation to make sure that all the available data was assessed and interpreted correctly. After completing the assessments, they were shared with the respective banks to get feedback. Follow-up calls were also made to banks to ensure that they had received the data sheets. However, no response was received from any of the banks.

The assessment sheet is common for all country coalitions of Fair Finance Guide international. They can, however, choose to assess only those themes that are relevant to their country and context. These sheets have inbuilt scoring systems - after data is entered, scores are generated automatically. The total score arrived at for each theme is the addition of individual scores for each element in that theme divided by the total score expected.

ASSESSMENT AND STUDY FOCUS

For the purposes of this report, the policy assessment of 10 themes, namely, climate change, corruption, gender equality, human rights, labour rights, nature, tax, arms, financial inclusion and transparency and accountability, are grouped under three domains: Environment, Social and Governance (ESG).

ENVIRONMENT

CLIMATE CHANGE: This derives from various international standards and frameworks most importantly UNFCCC, IPCC, the Kyoto Protocol, the GHG Protocol, CDP and TCFD. These issues are primarily covered under SDGs 7, 12 and 13. NVGRF's Principles 3 and 4 provide specific guidance on these issues. These issues are also covered in NGRBC's Principles 2, 6 and 9.

NATURE: This draws from international frameworks such as the UN Environmental Programme (UNEP), UN Convention on Biological Diversity (CBD), CEO Water Mandate, CDP's Water Programme, International Union for Conservation of Nature (IUCN), IFC Performance Standards and OECD Guidelines for MNEs among many others. These issues align with several SDGs particularly Goals 6, 12 and 15. These issues are also covered under NGRBC's Principles 6 and 8.

SOCIAL

GENDER EQUALITY: This is in alignment with India's commitment to gender equality as reflected in its support for SDG 5. In its focus on marginalised groups in its various principles, NGRBC pays inbuilt attention to gender equality thereby committing a gender lens across all the nine principles. The theme draws from international frameworks such as UDHR, ICCPR, ICESC, CEDAW, ILO conventions, UNGPs, OECD Guidelines for MNEs, IFC Performance Standards and WEPs.

HUMAN RIGHTS: This draws from UDHR, UNGPs, ICCPR, ICESCR, CEDAW, CRC and the UN Declaration on the Rights of Indigenous People. These issues are covered under Principle 5 of NGRBC and Principle 7 of NVGRF. India's commitment to developing NAP on business and human rights specifically focuses on these issues. SDGs 5, 8, 10 and 16 are most closely aligned with this theme.

LABOUR RIGHTS: This is based on ILO conventions and other international standards such as the Global Living Wage Coalition, UN-CRC, CEDAW and ISO 45001:2018. NVGRF's Principles 6 and 7 provide specific guidance on these issues. These are also covered under NGRBC's Principle 3 and SDGs 1, 3, 4, 5, 8 and 16. Human rights: This draws from UDHR, UNGPs, ICCPR, ICESCR, CEDAW, CRC and the UN Declaration on the Rights of Indigenous People. These issues are covered under Principle 5 of NGRBC and Principle 7 of NVGRF. India's commitment to developing NAP on business and human rights specifically focuses on these issues. SDGs 5, 8, 10 and 16 are most closely aligned with this theme.

ARMS: This is developed based on international humanitarian law and international conventions on weapons.

FINANCIAL INCLUSION: Apart from the above mentioned FFGI core themes, Fair Finance India has also taken up financial inclusion as an area of focus. For this it draws from international frameworks and principles such as GPFI, FIAP, Key Principles of Micro-Finance and UNPRI. It is also a key policy priority of the Government of India and a regulatory priority of RBI, whilst finding some alignment with NGBRC's Principle 8.

GOVERNANCE

CORRUPTION: This draws from the UN Convention against Corruption, OECD Guidelines and ISO 20400, and is addressed in NGBRC's Principle 1.

TRANSPARENCY AND ACCOUNTABILITY: This refers to standards present in, inter alia, GRI, Equator Principles, UNGPs and the UNGP Reporting Framework. These are also addressed in NGBRC's Principles 1, 4 and 5.

TAX: This draws from GRI and OECD Guidelines and also aligns with NGBRC's Principle 1.

Thematically, all the focus areas in this assessment have some alignment with national guidelines on responsible business and wider policy and regulatory priorities, direct in the case of human rights, labour rights, nature, climate change, transparency and accountability, tax, corruption and financial inclusion. The arms theme is indirectly aligned with respect for human rights since it concerns the most fundamental human right: the right to life.

UPDATION OF THE FAIR FINANCE GUIDE METHODOLOGY

The latest Fair Finance Guide Methodology has been updated to keep pace with the newest trends and standards in sustainable finance.

Social and economic values have rapidly become the joint responsibility of business, government and civil society, and the Fair Finance methodology continues to be an important means of bench-marking the financial sector on responsible and sustainable practice, and advocating for improvements. With each review Fair Finance International incorporates, as much as possible, the feedback we receive from the financial institutions we engage with, and from sector experts, and a broad range of stakeholders.

This latest version of the Methodology contains a series of changes:

- Applicable international standards were updated in themes such as Climate, Labour Rights, and Financial Sector.
- Some redundant assessment elements were removed in themes such as Food, Animal Welfare or Mining amongst others.
- Some new assessment elements were added or adjusted, in themes such as Transparency and Accountability, Arms and Forestry.
- The explanations of *What is at stake* in themes such as Corruption, Health and Labour Rights was updated.
- Some definitions and the scope of applicability of the methodology was clarified, such as for the *asset management for the account of clients'* category.

Note: There have been minor changes in scores due to the addition of new elements in this year's methodology. These changes have not been accounted for in the explanation of scoring of each theme.

SCORING SYSTEM

For every theme, the score of each financial institution is based on the proportion of elements included in the policy, corrected for the relevant investment categories that the policy is applied to. In its scoring system, the Fair Finance Guide therefore takes into account both the contents and the scope of the policies of the financial institution. The scores for all elements included in a theme are added together and then divided by the total number of elements. This results in the final score for a theme.

FINDINGS

ENVIRONMENT

The Government of India, through its apex body on Environment, the Ministry of Environment, Forest and Climate change has implemented several programmes to address issues around environment. The Directive Principles of State Policy in Article 48 says "the state shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country"; and again in Article 51-A states that "it shall be the duty of every citizen of India to protect and improve the natural environment including forests, lakes, rivers and wildlife and to have compassion for living creatures. However, due to the prevalent poverty and the developmental compulsions of the nation, environment and its protection was not a priority of the government till the end of the 1960s. The 1972 Stockholm Conference on Human Environment brought a marked shift in India's approach to environmental issues. The conference proved to be a turning point in India's perception on environment and facilitated the creation of the National Committee on Environmental Planning and Co-ordination (NCEPC) in 1972, with triggered legislations around environmental protection.

India is also party to many such international agreements concerning the management of the environment. Some of the important agreements include- The Antarctic Treaty (Washington, 1959); Convention on International Trade in Endangered Species of wild fauna and flora (CITES), 1973; UN Framework Convention on Climate Change (UNFCCC), 1992; Convention on Biological Diversity, 1992; UN Convention on Desertification, 1994, Prior Informed Consent, Rotterdam Convention and many others.

The Government's Commitment to protect the environment is well reflected in the National Guidelines on responsible business conduct (NGRBC) that urges companies act and operate in a manner, which causes least harm to the environment. Principle 2 states that "Businesses should provide goods and services in a manner that is sustainable and safe" and Principle 6 states that "Businesses should respect and make efforts to protect and restore the environment".

However, despite several Environmental legislations and allegiance to international conventions/ treaties to safeguard the environment, the results are contrary to desired results. Further, the dilution of existing laws, including latest erosion of Environmental responsibility in the proposed draft Environmental Impact Assessment (EIA) notification 2020, issued under the powers vested in the Central government under the Environment (Protection) Act, 1986, challenges efforts towards protection and improvement of the environment. This is particularly alarming given that in a report launched in 2018 India's position of Global Environment Performance Index fell from 141 in 2016 to 177 in 2018.[17]

1. NATURE

India is among the world's top 10 'most bio-diverse' countries[18] with 7-8 per cent of all recorded species, including over 45,000 plant species and 91,000 animal species[19]. In a UN report published early this year, around 1 million animal and plant species were highlighted as threatened with extinction in the coming decades[20].

17 https://www.thehindu.com/sci-tech/energy-and-environment/india-ranks-177-out-of-180-in-environmental-performance-index/article22513016.ece

18 https://news.mongabay.com/2016/05/top-10-biodiverse-countries/

19 https://www.iucn.org/asia/countries/india

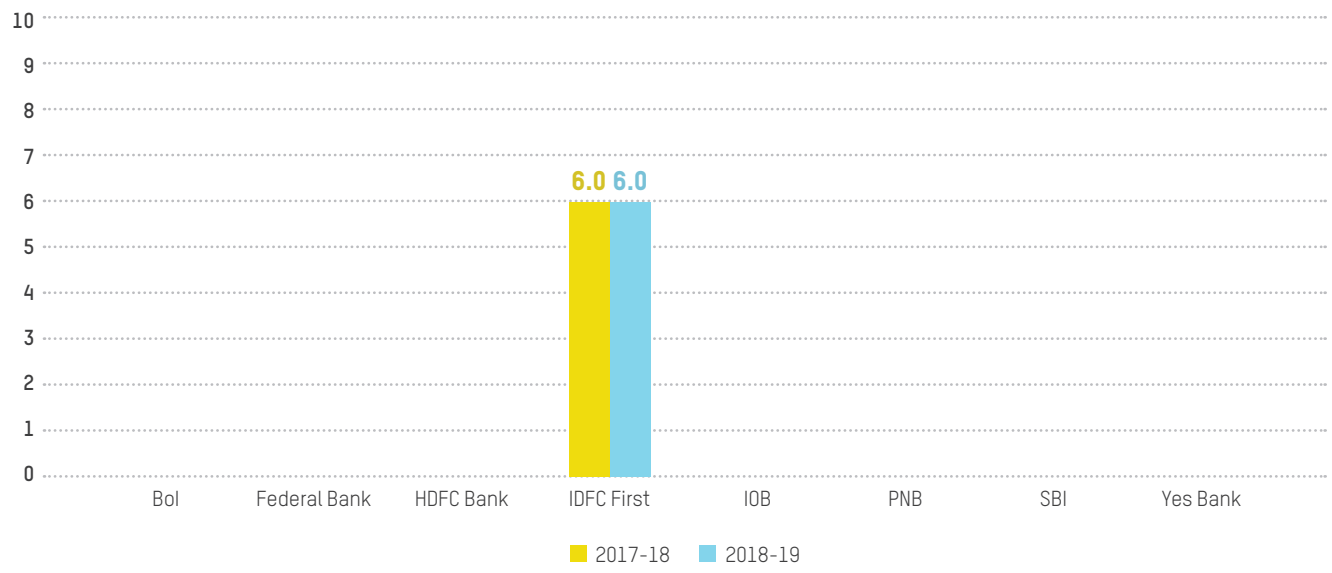
20 https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/#:~:text=The%20Report%20finds%20that%20around,20%25%2C%20mostly%20since%201900.

In addition to the looming threat from climate change, accelerating decline of global biodiversity is one of the most urgent environmental concerns. In this context, critical concepts such as resource efficiency, sustainable consumption and production are considered central to achieving Sustainable Development Goals worldwide.

The concept of 'green banking' i.e. banks or financial institutions investing into 'biodiversity businesses' is not new to India. The increasing importance of green financing was more evident after the SDG 2030 agenda was published. It is being seen as a critical instrument through which banks can achieve environmental and social sustainability goals apart from realising financial returns.[21] Still only a handful of Indian companies including banks and investment companies, have shown commitment towards environment protection and efficient natural resource management as a signatory to one of the varied Principles - the Equator Principles, the Carbon Disclosure Project, UN PRI in the last couple of years. India is also a signatory to the UN Convention on Biological Diversity which promotes the world to be living in harmony with nature.[22]

At the national level, the responsible business space vis-à-vis environment looks grim with the central government auctioning 41 coal mines for commercial mining in 2020 in order to 'reduce dependency on imports'. The Ministry of Environment, Forest and Climate change (MoEFCC) also released the draft Environment Impact Assessment (EIA) draft 2020 notification public while the world was reeling with the global health crisis of Covid-19. The draft notification proposed to ease processes for business, did away with the public hearings for many projects and eased rules for expansion of projects among other things. For instance, a mining project can now get environmental clearance for a period of up to 50 years, in the beginning, instead of 30 years in the EIA 2006. There are several other features that significantly dilute the very purpose of having an EIA process in place, by curtailing the public consultation process before an environment and social clearance is provided to a company (public or private).

FIGURE 3: BANKS' POLICY COMMITMENTS TO THE THEME OF NATURE



21 https://www.researchgate.net/publication/312095968_HAVE_GREEN_BANKS_BEEN_STARTED_WITH_THE_AIM_OF_PROTECTING_THE_ENVIRONMENT

22 https://www.cbd.int/information/parties.shtml

*

**Investee companies: Assesses the policy commitments of the banks for the companies they invest in

Internal Operations[23]
No questions pertaining to internal operations

Investee Companies[24]
With the exception of IDFC Bank, none of the other assessed Indian banks demonstrated policy commitment to any of the areas covered under this theme. IDFC Bank is a member of the Equator Principles and mentions being committed to following its clauses on environmental protection with respect to project financing as per IFC Performance Standards.

2. CLIMATE CHANGE

The negative impacts of climate change on human health are daunting and are evidenced by the increasing number of deaths that are attributed to climate related deaths and struggles. According to WHO, climatic changes were estimated to have caused over 150,000 deaths annually in 2002 and it is estimated to increase to 250,000 deaths annually between 2030 and 2050. Evidences also show that climate change and environmental issues will lead to rapid spread of infectious diseases[25] and will contribute to significant health issues caused by deteriorating air quality[26]. It will directly impact yield and productivity and thereby cause issues around food security and malnutrition.

Realising this in 2007, the Reserve Bank issued a notification on "Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting – Role of Banks", thereby emphasising on the need for green finance as early as 2007. The notification mentions the importance of global warming and climate change in the context of sustainable development. In 2008, The National Action Plan on Climate Change (NAPCC) was formulated with a vision to outline the broad policy framework for mitigating the impact of climate change (Jain, 2020). The Climate Change Finance Unit (CCFU) was formed in 2011 within the Ministry of Finance as a coordinating agency for the various institutions is responsible for green finance in India. Further in 2014, India under the 2015 Paris Agreement committed to reduce greenhouse gas emission intensity by 33 to 35 per cent below 2005 levels, and to achieve 40 per cent of installed electric power capacity from non-fossil sources by 2030[27].

The Intergovernmental Panel on Climate Change (IPCC) 2021 report, however, points that these initiatives have not been able to resolve the climate crisis. It states, "The scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented over many centuries to many thousands of years".[28] It states that targets set in the Paris climate goal is fast slipping out of reach because countries are not cutting down carbon emissions fast enough, causing global temperature to rise. It indicates that while India has maintained that its emission in accordance with the Paris climate agreement commitment, it continues to retain the position of the third largest carbon emitter of the world, after China and the US. According to the 2019 global report by the World Resources Institute[29], India is one of the 17 countries where water stress is extremely high and is running out of ground and surface water. It is listed alongside countries in the Middle East and North Africa where large swathes are deserts. It is ranked seventh in a major climate risk index of 2019.These are alarming facts based on Global reports in concomitant with the country's own climate change assessment report published by the government last year found that both the frequency and intensity of droughts had increased significantly between 1951 and 2016. The challenge for India is to manage its economic rise, while also being sensitive to the dramatic climate changes that results from it. It is therefore important

23 Internal Operations: Assess the policy commitments for the purpose of the banks own operations

24 Internal Operations: Assess the policy commitments for the purpose of the banks own operations

25 https://www.medicalnewstoday.com/articles/how-might-global-warming-influence-the-spread-of-viruses

26 https://www.cdc.gov/climateandhealth/pubs/air-quality-final_508.pdf

27 https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20022

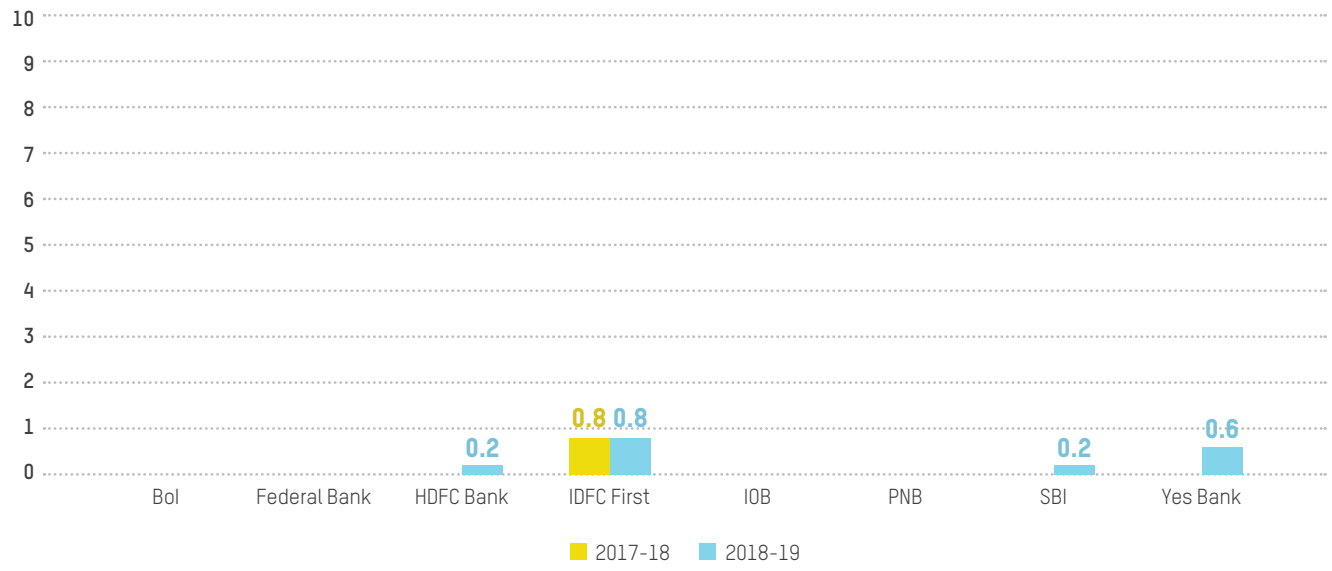
28 https://www.bbc.com/news/world-asia-india-58155294

29 https://wriorg.s3.amazonaws.com/s3fs-public/uploads/wri-2018-19-annual-report_0.pdf

that concerted effort through approach through policy, planning and resources, be made to limit the consequences of the change.

FIs' Policy Commitments to the theme

FIGURE 4: BANKS' POLICY COMMITMENTS TO THE THEME OF CLIMATE CHANGE



Internal Operations

HDFC Bank, SBI and Yes Bank have received scores for showing some measurable commitments to reduce their GHG emissions. Also, Yes Bank is the only FI to disclose its portfolio carbon intensity in line with TCFD recommendations for its exposure to one sector, i.e., electricity sector. The Bank is also working on a plan to implement climate scenario analysis as recommended by TCFD.

Investee Companies

IDFC First Bank scored similar to last year due to automatic scoring for being a member of the Equator Principles and following its clauses on environmental protection with respect to project financing as per IFC Performance Standards. None of the other banks received any scores.

SOCIAL

While India has been demonstrating leadership on issues of financial inclusion by introducing policies such as Pradhan Mantri Jan Dhan Yojana[30] and the recent launch of the RBI's National Financial Inclusion Policy,[31] the government and the financial sectors' intervention in protecting and promoting labour rights projects a gloomy picture. For instance, only 81.3% of the PMJDY were actually operative till February 2020[32], and almost 40 percent could not access government's COVID-19 Relief due to various challenges such as

30 https://pmjdy.gov.in/

31 https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf

32 https://www.thehindubusinessline.com/money-and-banking/almost-every-fifth-jan-dhan-account-inoperative/article30754738.ece

account dormancy and limited access to banks in rural areas[33]. We also saw a dip in labour standards by several Indian state governments with an objective of 'reviving' national economics from the COVID-19 led economic downturn. Weakening the existing labour standards (which includes steps such as extending working hours with no extra benefits, among others) in the name of ease of doing business stands is in contradiction to the need of mandatory ESG due diligence under the responsible finance framework.[34]

The 2030 Agenda for Sustainable Development[35] repeatedly stresses on the need to respect human rights that encourages more and more investors and financial institutions (around the world) to adopt policies that aim at overcoming social issues such as gender inclusion, empowerment of vulnerable communities, child or forced labour, and climate justice.

At the international level, India is a signatory to six of the eight core conventions of the International Labour Organisation (ILO): Forced Labour Convention, 1930 (No. 29), Abolition of Forced Labour Convention, 1957 (No. 105), Equal Remuneration Convention, 1951 (No. 100), Discrimination (Employment and Occupation) Convention, 1958 (No. 111), Minimum Age Convention, 1973 (No. 138) and Worst Forms of Child Labour Convention, 1999 (No. 182). Dilution of labour laws is expected to take India far from its commitment to respect, protect and promote human rights.

Principle 3 of the National Guidelines Responsible Business Conduct (NGRBC)[36] mandates businesses to adhere to all regulatory policies that respects human rights showing zero tolerance towards child labour,forced labour across their supply chains. The principle envisages promotion of fair living wages (SDG 8 – decent standard of living), harassment and discrimination free workplace for employees through incorporation of inclusive and sustainable policies by businesses.

Principle 7 of the National Voluntary Guidelines on Responsible Financing (NVGRF)[37] also encourages financial institutions to adopt policies that protect human rights both within their organisation and in their lending processes.

All of the above are important developments that have encouraged businesses around the world and within the country to stake steps towards sustainable development. The RBI in its recent annual report[38] has also acknowledged ESG risk assessment as an important way to ensure banks' long term sustainability. Banks should especially develop policies around ESG due diligence. This section analyses the policies of eight Indian sampled banks based on the FFGI methodology focusing on the areas of 'labour rights', 'human rights', 'gender equality', 'financial inclusion' and 'arms'.

1. LABOUR RIGHTS

India is a founding member of ILO, and out of its eight-core conventions, it has ratified six on forced labour, child labour, equal remuneration, discrimination with national laws in place conforming with ILO conventions on these issues.[39] At present over 40 labour laws in India are in the process of being condensed into four labour codes on wages, social security, occupational health and safety and industrial relations.[40] Under the constitution of India, labour law falls within the concurrent list, thus giving power to both the central government and the state government to make amendments in the existing laws and introduce new ones. This historically resulted

33 https://www.indiaspend.com/40-of-jan-dhan-account-holders-could-not-access-govts-covid-19-relief-survey/

34 https://www.epw.in/engage/article/changes-labour-laws-state-market-anarchy-labour-market

35 https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf

36 https://www.mca.gov.in/Ministry/pdf/NationalGuildeline_15032019.pdf

37 http://www.webelement.cc/ibaweb/reports/national-voluntary-guidelines-for-responsible-financing_290.html

38 https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?year=2020

39 Core ILO conventions ratified by India. https://www. ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO: :P11200_COUNTRY_ID:102691

40 https://labour.gov.in/sites/default/files/Central%20 Labour%20Acts_0.pdf

in a myriad number of labour laws related to wages and worker welfare. Despite a plethora of laws concerning labour rights and welfare, the laws were largely considered outdated and cumbersome by the industry and insufficient in terms of coverage of the occupational demography of the country by the civil society.

In 2019, The Labour Ministry of India passed several bills, as a part of labour reform initiatives, and decided to amalgamate 44 labour laws into four codes.[41] This was referred to as a much-awaited reform. Yet, when the reform took place, it didn't prove to be satisfactory to the workers and the trade unions, one of the major reasons of it being, the lack of any dialogue with the trade unions, who are legitimate and legal representatives of millions of workers whose welfare is at stake. KR Shyam Sundar, professor at XLRI, noted that the codification of complex labour laws failed primarily because of the justifiable perception amongst trade unions that it was a means to introduce employer-friendly reforms. Made with little consultation, these codes read poorly and do not formulate the substantive provisions, leaving them to the rule making processes. State governments have also proceeded to introduce unilateral reforms pushing the labour market towards greater flexibility and informality despite widespread protests by trade unions and the larger civil society including leading labour analysts and lawyers.[42]

The codification of laws was in process when novel coronavirus struck in early 2020. Government of India ordered a rather abrupt nationwide lockdown to control the pandemic spread, which brought the already struggling Indian economy to a grinding halt. The lockdown also trapped thousands of migrant workers in cities without means for necessary daily livelihood, shelter or food. They were living in cramped quarters in fear of the disease, without daily income for survival and facing frequent police brutality. Receiving varied kind of support from the government authorities,[43] several thousands of migrant workers set off on a journey to their homes by foot as no public transport was available. Media covered journeys of migrants going home and brought their plight to the notice of the larger population in India. Several hundred migrant workers were involved in road accidents, suffered deaths due to starvation and exhaustion. This exodus really brought into focus the plight of migrant workers in cities and their vulnerability in the face of the pandemic and otherwise. As per data newly released by Ministry of Labour and Employment, more than 1.6 crore migrant workers returned home during lockdowns including those on foot.[44]

To revive the economy which suffered hugely due to the lockdowns, many Indian states made sweeping changes in labour laws. Uttar Pradesh, notoriously suspended the application of almost all labour laws for the next three years. This was allegedly done to bring new investors and improve employment opportunities in the state and awaits presidential assent. Gujarat and Madhya Pradesh state governments followed suit. This suspension of labour rights lead to protests by the trade unions and civil society. ILO has raised concern over the issue of labour rights in India and has shown its disapproval on the steps taken by the states. It also emphasized on the fact that these changes would increase the gender disparity in India, and would infuse child labour back in the economic sphere. The ILO advocates for social dialogue as a collaborative and democratic forum, more so during COVID-19 times to arrive at just and sustainable laws and policies.[45] The Union Ministry of Labour and Employment itself opposed this step by the states. The very fact labour that laws and labour rights are being portrayed as bottle necks to investments, instead of factors such as lack of infrastructure, shows that the government is busy

41 https://economictimes.indiatimes.com/news/economy/policy/govt-introduces-labour-code-on-industrial-relations-bill-in-lok-sabha/articleshow/72273873.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

42 https://www.financialexpress.com/economy/modi-govt-brought-in-fixed-terms-jobs-but-little-else-in-terms-of-labour-reforms/1504246/

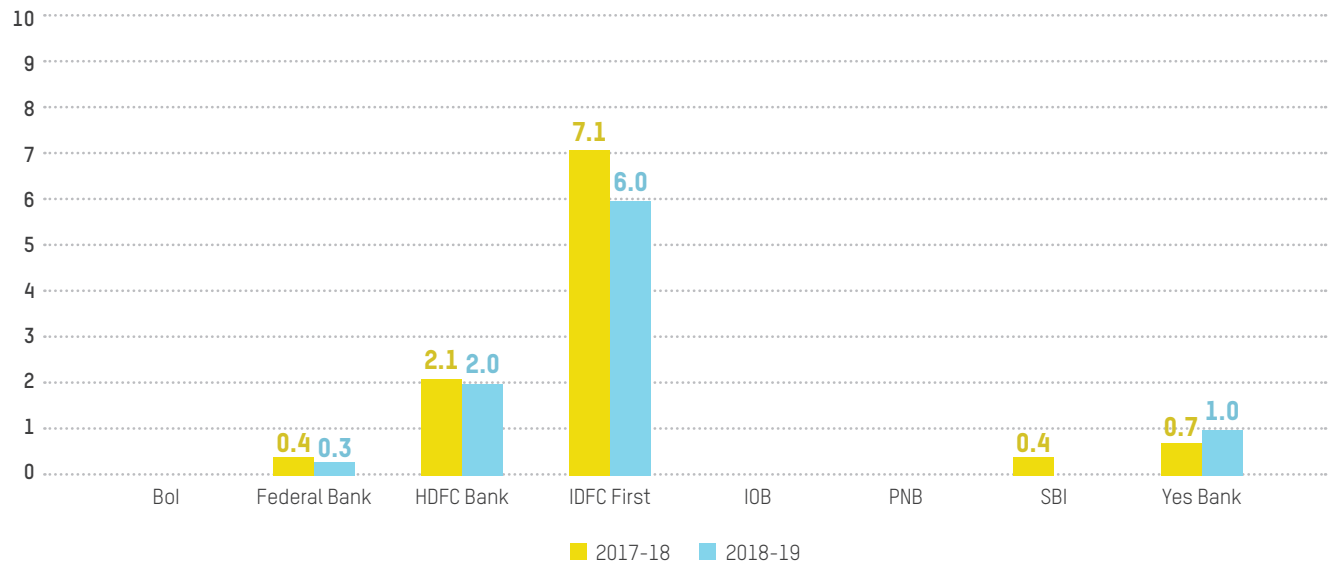
43 https://datastudio.google.com/embed/u/0/reporting/eb7b3ad4-67ec-43c9-9027-1b315ec7af96/page/R4vPB

44 https://www.deccanherald.com/national/lockdown-woes-over-one-crore-migrant-labourers-returned-to-home-states-on-foot-891401.html

45 https://blog.ipleaders.in/present-indian-labour-law-scenario-comparative-analysis/#:~:text=Through%20the%20law%2C%20India%20received,above%20the%20mandated%20eight%20hours.

pitching whatever measures it wanted to introduce before the COVID-19 pandemic struck, as definitive ways of recovering from the pandemic's impact on the economy.[46]

FIGURE 5: BANKS' POLICY COMMITMENTS TO THE THEME OF LABOUR RIGHTS



Internal Operations

Similar to last year, BoI, IOB and PNB did not mention having any policy commitment to international labour rights' standards or national laws and guidelines for the welfare of workers. While Yes Bank got automatic score for adopting the UNGC, only Federal Bank supported its employees to freely associate and form unions. The bank also had policy commitments discouraging discrimination, child labour and forced labour.

Investee Companies

IDFC First's scores have decreased from last year as the bank is no more mentioned on UNGC's website and is said to have been expelled on October 13, 2018. However, being a member of the Equator Principles, IDFC First Bank has policy commitment to assessing four core labour standards (freedom from forced labour, child labour and discrimination and gives the right to freely associate and occupational health and safety) when determining the risks of the projects that it finances, for which it has received scores. Additionally, HDFC Bank shows some policy commitments to EHS principles in its annual report.

Overall, scores of a few banks have fallen due to additional of a new element, thus, changing denominator of the average.

3. GENDER EQUALITY

The gender theme draws from various international frameworks that frame the principles of gender equality and empowerment of women and girls. Countries are losing $172 trillion in wealth because of differences in lifetime earnings between women and men, across the world according to a recent World Bank Group study.[47] Thus gender equality, in addition to being a fundamental human right, also has a powerful business and economic case that women must be have access to.

46 https://www.epw.in/journal/2020/22/insight/labour-law-changes.html

47 https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Gender+at+IFC

Promoting gender equality is core to both the discourse and practice of development policy. Gender equality is crucial to achieving the Sustainability Development Goals (SDGs),[48] not least in India where gender inequality remains entrenched and highly prevalent. The situation has become even more urgent since the pandemic, with the feminization of poverty set to take hold further: a recent study by UN Women predicts that in 2030, there will be 121 women in poverty for every 100 men, from 118 women for every 100 men in 2021.[49]

Established by UN Global Compact and UN Women, the Women's Empowerment Principles (WEPs)[50] are a set of principles offering guidance to business on how to promote gender equality and women's empowerment in the workplace, marketplace and community. The WEPs are informed by international labour and human rights standards and recognise that businesses have a stake in, and a responsibility for, gender equality and women's empowerment[51].

The CEDAW (1979)[52] articulates the nature and meaning of sex-based discrimination and gender equality, and lays out State obligations to eliminate discrimination and achieve substantive equality. Importantly, the Convention covers not only discriminatory laws, but also practices and customs, and it applies not only to State action, but also State responsibility to address discrimination against women by private actors.

The ICESCR[53] guarantees rights including inter alia the right to work, the right to form trade unions, rights relating to marriage, maternity and child protection, the right to an adequate standard of living, the right to health, the right to education, and rights relating to culture and science. The ICESCR also sets out the prohibition of discrimination based on, inter alia, sex, as well as the equal right of men and women to the enjoyment of all rights contained in the treaty.

The recent Violence and Harassment Convention (190) recognises "the right of everyone to a world of work free from violence and harassment, including gender-based violence and harassment"[54] in line with the ILO's Declaration on Fundamental Principles and Rights at Work.[55]

In the national context, the NGRBCs principles such as 3, 4, 5 and 8 a specific mention to vulnerable and marginalised groups has been made which encompasses women as one of the groups that fall under this category. The Business Responsibility Report (BRR), which is based on the NGRBCs, also captures this information through questions on percentage of women employees provided with skill upgradation training and complaints filed on sexual harassment. The Business Responsibility and Sustainability Reporting (BRSR), which is an updated version of the BRR, further expanded this scope to include questions on equal opportunity policy of the company, maternity benefits, day care facilities, etc.

48 https://openknowledge.worldbank.org/handle/10986/23425

49 https://www.unwomen.org/en/news/stories/2020/8/press-release-covid-19-will-widen-poverty-gap-between-women-and-men

50 https://www.weps.org/about

51 https://www.weps.org/

52 https://www.ohchr.org/EN/Issues/Women/Pages/InternationalStandards.aspx

53 https://www.ohchr.org/EN/Issues/Women/Pages/InternationalStandards.aspx

54 https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C190

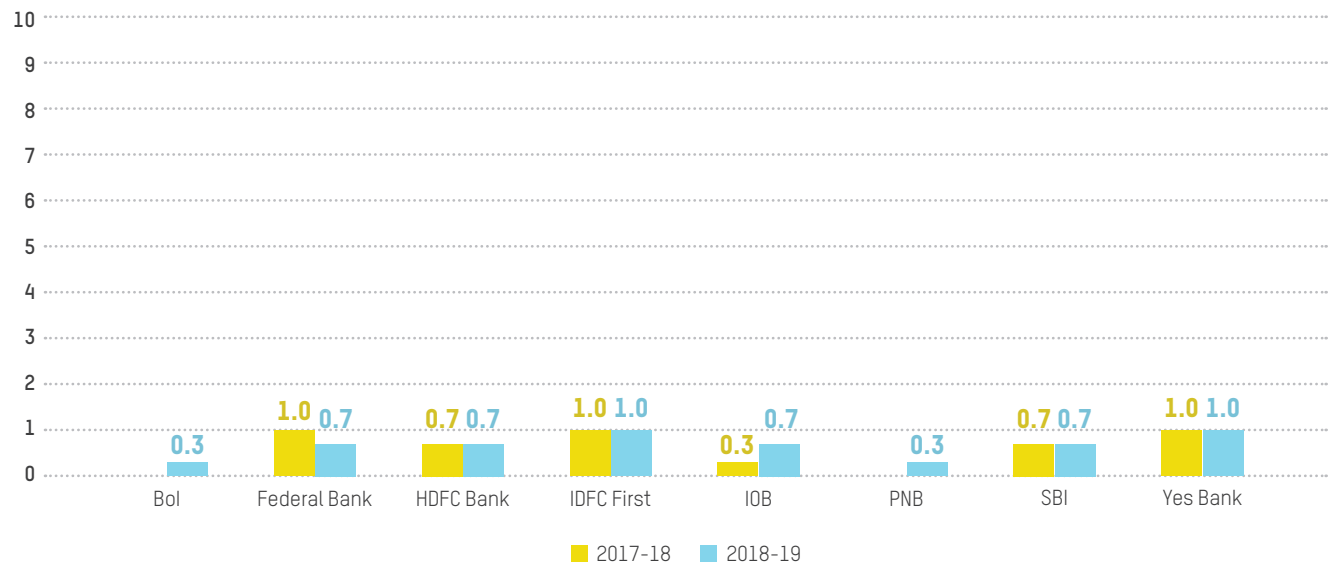
55 https://www.ilo.org/declaration/lang--en/index.htm

GOOD PRACTICE
IFC's Respectful Workplaces' Advisory
COVID-19 and Gender-Based Violence: Workplace Risks and Responses[56]

"This guidance note seeks to inform employers about the heightened risks of gender-based violence as a result of the COVID-19 pandemic and outline ways in which employers can address these risks, improve employee and community well-being, and create a safe and resilient workplace.

The publication covers actions companies should consider when dealing with issues related to customer and client aggressions; workplace bullying and sexual harassment; sexual exploitation and abuse connected to the workplace; and domestic violence."

FIGURE 6: BANKS' POLICY COMMITMENTS TO THE THEME OF GENDER EQUALITY



Internal Operations

Preventing sexual harassment is one of the most widely adopted policy areas, with six of the eight banks having policies on dealing with sexual harassment. However, only Yes Bank had mentioned taking efforts towards increasing its focus on gender mix in leadership roles,. All banks, barring IDFC First, had systems in place to prevent and mitigate gender discrimination of its customers through the medium of SHGs. However, due to the fact that SHGs do not reach all women (i.e., those who are not SHG members are excluded), and due to the fact that SHGs do not address all facets of gender discrimination, it has been considered liable for half score.

56 https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/gender+at+ifc/resources/covid19+and+gender+based+violence+workplace+risks+and+responses

None of the banks reported guaranteeing equal participation and access to women to senior level positions. In fact, BoI has the highest percentage of women as board of directors – 25% - rest of the banks have even lower percentages of women as board members. None of the FIs' mention providing targeted professional development such as training for employees for promoting equal access for women to senior level positions

Investee Companies

IDFC First Bank was the only FI which had policy commitments to gender with respect to the companies that it invests in as per the Equator Principles.

4. FINANCIAL INCLUSION

Financial Inclusion is recognised as a critical enabler of various 2030 Sustainable Development Goals, featuring "as a target in eight of the seventeen goals"[57] including those aimed at addressing hunger, achieving gender equality and women's economic empowerment, promoting jobs and reducing inequality. Since then, the G20 has made a commitment to advance financial inclusion worldwide[58] and support the implementation of the G20 High Level Principles for Digital Financial Inclusion.[59]

India is one of the countries that has achieved the most in terms of progress towards financial inclusion in recent decades, by delivering policies at scale such as for instance the Aadhaar universal identity scheme for all Indian residents and the 2014 Pradhan Mantri Jan Dan Yojana scheme, which is delivered through a range of channels including commercial banks and banking correspondents capable of reaching local communities. The PMJDY scheme aims to, "provide universal banking services for every unbanked household, based on the guiding principles of banking the unbanked, securing the unsecured, funding the unfunded and serving unserved and underserved areas."[60]

The NGBRC, in Principle 8 make clear that businesses should promote inclusive growth and equitable development. For banks and other financial institutions, this means they are expected to integrate this role across their core businesses and CSR functions. One of the elements under this principle says that, "businesses should innovate and invest in products, technologies and processes that promote the well-being of all segments of society, including vulnerable and marginalized groups" which is another encouragement to banks to ensure that the underserved receive adequate attention in their product design, development and deployment.

It is indeed critically important that, even as people gain access to financial services, they are provided structured guidance on how to use them in a way that is prudent and does not involve taking unnecessary risks. This demands financial literacy and financial education: important for increasing what the World Bank describes as financial capability.[61] For those who are less literate, and who face other social and economic disadvantages and barriers, proactive financial literacy and financial education programmes, and allied programmes such as women empowerment, are needed in order to protect them from risks as well enable them to make the most of available services.

Since the Covid-19 pandemic, many small businesses and individuals have encountered considerable difficulties in paying off loans and in meeting everyday financial needs in the absence of income and employment. On measure the RBI has undertaken to address this is to provide debt restructuring services for MSMEs affected by the pandemic until March 31 2021,

57 https://www.uncdf.org/financial-inclusion-and-the-sdgs

58 https://www.gpfi.org/news/baden-baden-g20-communiqu-commits-advance-financial-inclusion

59 https://www.gpfi.org/news/new-g20-high-level-principles-digital-financial-inclusion

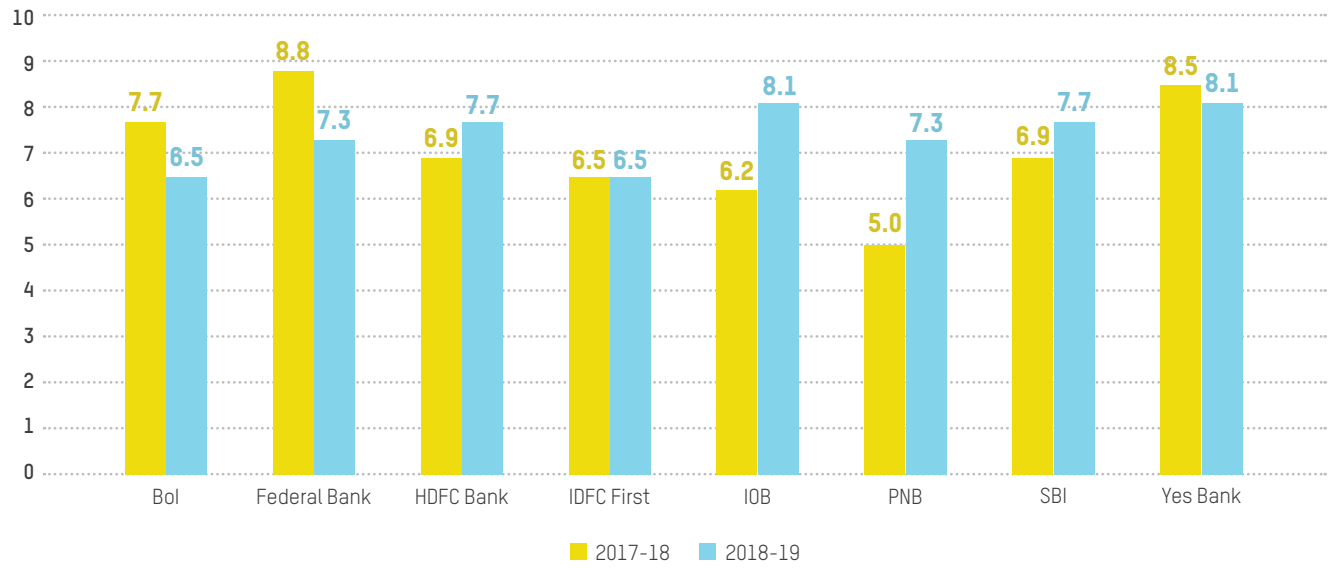
60 https://financialservices.gov.in/financial-inclusion#:~:text=The%20Government%20initiated%20the%20National,unsecured%2C%20funding%20the%20unfunded%20and

61 This is defined as "the internal capacity to act in one's best financial interest, given socioeconomic environmental conditions. Financial capability encompasses the knowledge, attitudes, skills, and behaviors of consumers with regard to managing their resources and understanding, selecting, and making use of financial services that fit their needs" https://responsiblefinance.worldbank.org/en/responsible-finance/financial-capability

with eligibility resting on their accounts being classified as standard on March 1 2020, i.e. before the pandemic. For MSMEs, this support is clearly needed although contingency measures will have to be in place to ensure that, in the event of borrowers being unable to repay, the situation can be managed by appropriate regulatory and government measures.[62]

Having a bank account is important not only for savings and finance but also - as recently shown during with the initiative to transfer INR 500 per month to female PMJDY holders[63] for 3 months during the initial national lockdown phase – a means of accessing vital social protection services. In this light it remains a concern that, notwithstanding the progress in widening access to these basic bank accounts, large numbers of women (not to mention men) still appear to be excluded from them – with one estimate suggesting around half may have missed out on this support.[64]

FIGURE 7: BANKS' POLICY COMMITMENTS TO THE THEME OF FINANCIAL INCLUSION



Internal Operations

All eight banks assessed by the Fair Finance India team this year had policies, services or products that specifically target poor and marginalised groups though there was variance in the level of detail that they provided regarding specific services. Similarly, all banks had set up branches in rural areas and also provided branchless, cashless and mobile banking services: a move that has become even more important since the pandemic.

In the area of share of loans channelled to MSMEs there was some degree of variance between different financial institutions' disclosed commitments. While last year, only three banks indicated that their share of loans channelled to MSMEs was above 10 per cent, it increased to five banks this year. In line with regulatory requirements, all eight banks indicated that they did not necessarily require collateral for MSMEs to borrow. Four banks were taking clear steps to communicate

62 https://www.financialexpress.com/industry/sme/msme-debt-restructuring-allowed-till-march-2021/2047253/

63 https://pib.gov.in/PressReleasePage.aspx?PRID=1610606

64 https://qrius.com/are-jan-dhan-accounts-the-right-choice-for-cash-transfers/

risks (including risks of indebtedness) associated with financial products or services to low-literate clients and MSMEs, one up from last year. Three banks had policy commitments to providing terms and conditions in the national or local languages. All banks had made some commitments to improving financial literacy among low-income, marginal groups and MSMEs - mostly through CSR activities - and none of them required a minimum balance whilst five provided information on credit processing time.

Due to regulatory requirements, more so the Pradhan Mantri Jan Dhan Yojana, none of the banks charge for opening Basic Saving Bank Deposit Accounts. Six out of the eight banks provide information on credit processing time. Only three banks provide some information about having affordable and convenient financial products to send or receive domestic remittances through an account. Six banks provide information on having low-income housing finance, primarily due to the Pradhan Mantri Awas Yojana.

Investee Companies

No questions pertaining to internal questions

5. ARMS

Arms are a threat to the most fundamental human right: the right to life – they kill, maim and destroy. Armed conflicts threaten the safety of millions of people around the world. Moreover, small arms are not only used in armed conflicts but also in conflicts between individuals, within families and between groups and gangs. While one of the targets of SDG 16: Peace, Justice and Strong Institutions is to reduce illicit financial and arms flows by 2030, the arms industry also poses a serious threat to other SDG goals, such as SDG 1: No Poverty, SDG: 2 Zero Hunger, SDG 3: Good Health and Well-being, and SDG 10: Reduced Inequalities.

In 2020, India has become the third largest military spender in the world, after the US and China, according to a Stockholm International Peace Research Institute (SIPRI) report.[65] This is the first time that India and China are among the top three military spenders. As per the SIPRI's database, India's military spending of $71.1 billion in 2019 amounts to 2.4 per cent of the country's gross domestic product (GDP) and 3.7 per cent of the total global military spending of $1.9 trillion[66].

States have the right - and indeed the obligation - to protect their citizens and individually or collectively defend security interests. States' responsibilities towards public security include regulating, checking and monitoring the manufacture, transfer, possession, stockpiling and use of arms. Yet, in practice there has been a lack of expediency to governments and multilateral bodies (such as the United Nations Security Council) to monitor the international arms trade.[67] Research shows how the arms industry, despite existing regulatory regimes, continues to sell arms to human rights abusing regimes and conflict zones,[68] severely violating the International Humanitarian Law.

This theme focuses on the need to ensure that no arms are produced which do not distinguish between combatants and non-combatants in violation of international humanitarian law. This includes clauses that caution against investments in antipersonal landmines, cluster munitions, nuclear weapons, chemical weapons and biological weapons. This thematic assessment also focuses on arms investments made in States on which a multilateral embargo has been posed concerning issues of armed conflict, risk of serious violations of international law in countries which severely violate human rights.

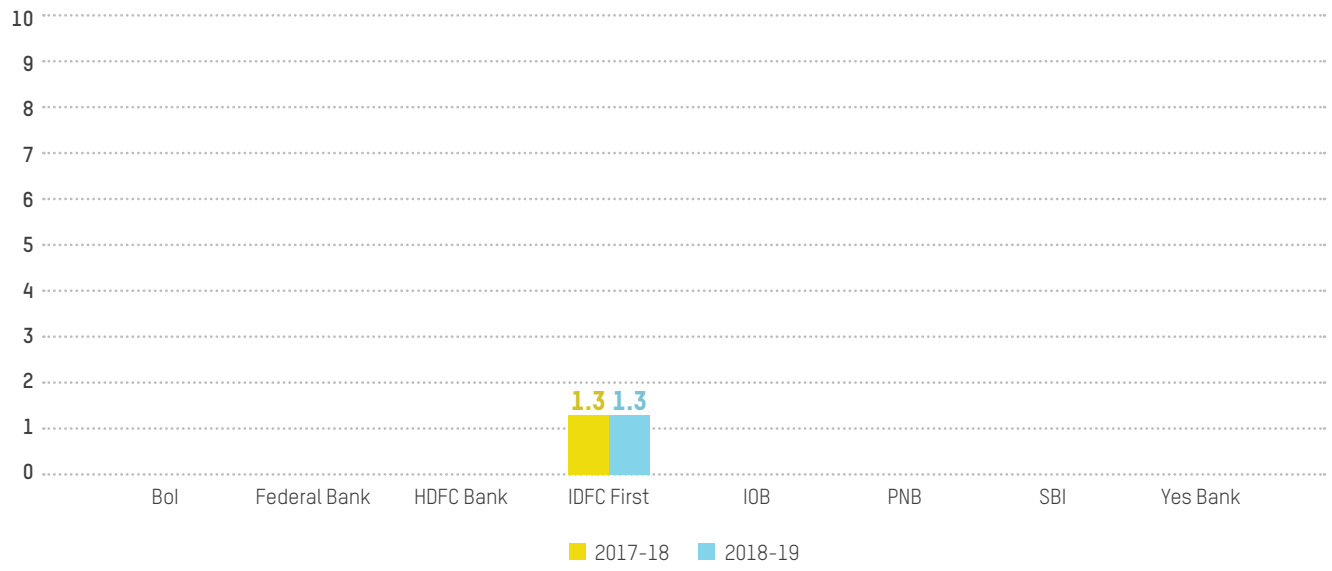
65 https://economictimes.indiatimes.com/news/defence/global-military-spending-saw-largest-increase-in-decade-in-2019-china-india-in-top-3-study/articleshow/75404166.cms?from=mdr#:~:text=increased%20military%20expenditure

66 https://idsa.in/specialfeature/india-defence-expenditure-laxman-madhulika-100720

67 https://fairfinanceguide.org/media/495987/2019-075-ffgi-policy-assessment-2019-methodology-200213-edit-200709.pdf

68 For example: https://caat.org.uk/homepage/stop-arming-saudi-arabia/

FIGURE 8: BANKS' POLICY COMMITMENTS TO THE THEME OF ARMS



Internal Operations

IDFC Bank was the only assessed bank that had an exclusion list which includes sectors engaged in production or trade in biological and chemical weapons. None of the other banks had any policies related to lending to companies in the arms sector.

Investee Companies

No questions pertaining to internal questions

GOVERNANCE

1. CORRUPTION

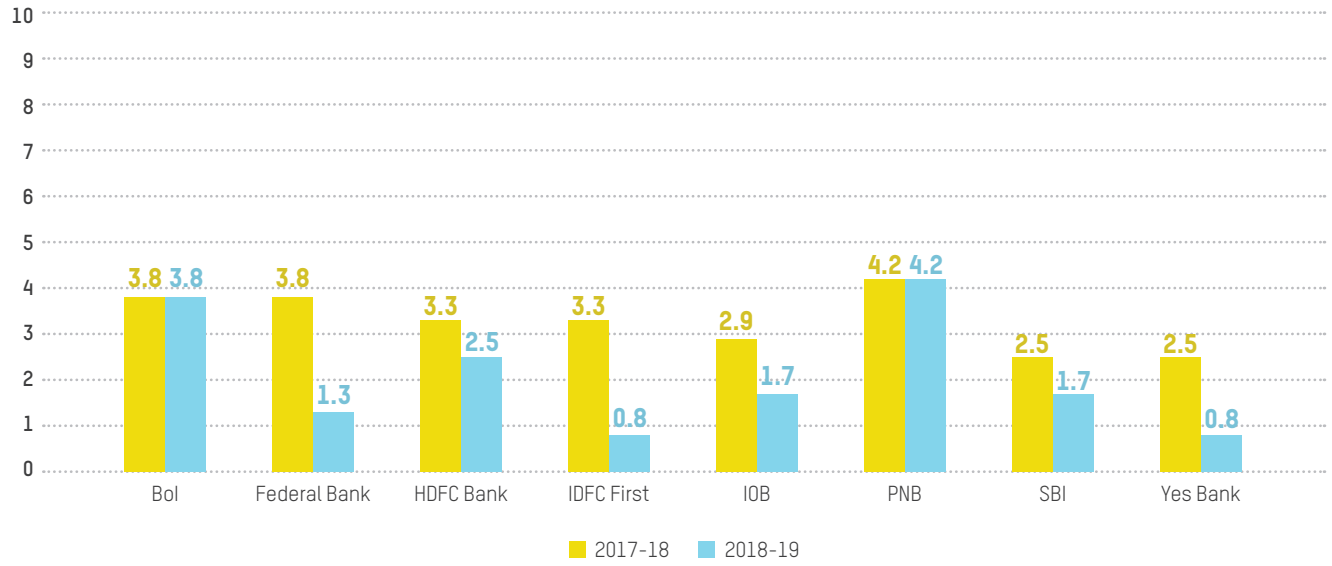
India's Prevention of Corruption Act is the principal legal framework that focuses on corruption in the public sector. Both active and passive bribery are covered by legislation, and public officials are only allowed to accept gifts of nominal value. Private sector corruption is addressed by the Companies Act. Despite these efforts by the Government's to counter corruption, red tape and bribery, it continues to be widespread. India slipped further down the rankings of the Corruption Perception Index (CPI) for 2019, an annual assessment by Transparency International.

This rampant corruption has also impacted the financial sector, which has witnessed a significant decline in Banks' profitability in the last few years making them vulnerable to adverse economic shocks and consequently putting consumer deposits at risk. The Indian banks reported a total loss of about Rs 70,000 crore due to aggressive lending practices, wilful default, loan frauds, corruption in some cases during the last three fiscals up to March 2018.[69] According to the RBI Annual report, cases of fraud at banks and financial institutions increased 28% in volume terms during financial year 2020.[70]

69 https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-banks-take-about-rs-70000-crore-hit-due-to-frauds-in-last-3-fiscal/articleshow/65307221.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

70 https://www.financialexpress.com/industry/banking-finance/bank-frauds-up-28-last-year-psu-banks-account-for-over-half-the-cases/2064946/

FIGURE 9: BANKS' POLICY COMMITMENTS TO THE THEME OF CORRUPTION



Internal Operations

This theme has seen a major dip in scores primarily due to the methodology becoming stricter in assessment especially for elements pertaining to the disclosures in the KYC policy. Only four banks have clear policy on disclosures on bribery or any other indicators of corruption. Four banks have policies to combat terror financing activities including procedures for monitoring transactions, while none of them report on their participation in the decision-making processes of international norms and legislation (lobby practices), two down from last year.

Investee Companies

None of banks have any disclosure on questions pertaining to investee companies.

2. TRANSPARENCY AND ACCOUNTABILITY

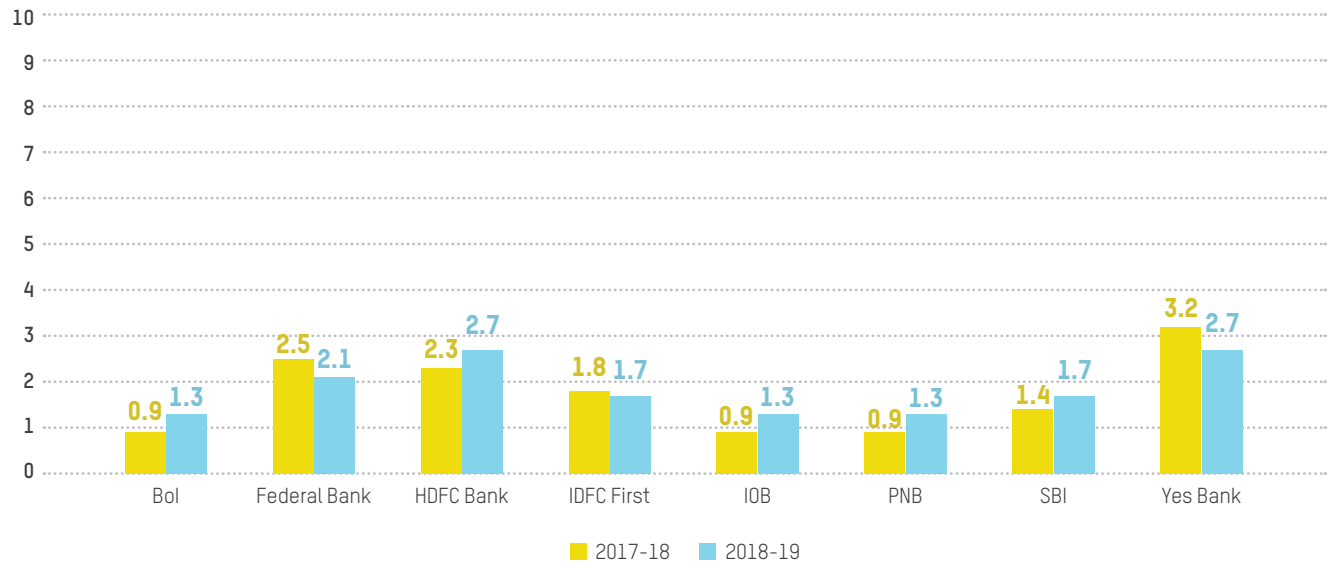
Businesses don't work in isolation. Being a part of the larger society, they have to earn the social license to operate. Being transparent and accountable is one of the major ways of earning this social license. Transparency and accountability are even more important for banks than for other companies, as they are the facilitator of businesses activities in the economy. By being intermediaries between investors and borrowers they share a higher level of responsibility and should therefore have to be held accountable about their own practices, to not only their clients but to the society at large.

Over the years, RBI and SEBI have played a crucial role in enhancing standards of corporate disclosure in India. In efforts to have a single source for all non-financial disclosures by corporates, a government-appointed panel in its report, released in August 2020, made various proposals on business responsibility reporting. In its Report, the Committee recommended a new reporting framework called as the 'Business Responsibility and Sustainability Report (BRSR)' to better reflect the intent and scope of reporting on non-financial parameters.[71] It also recommended that the BRSR be integrated with the MCA21 portal. As a long-term measure, the Committee envisions that the information captured through BRSR filings be used to develop a Business Responsibility-Sustainability Index for companies.

71 https://www.sebi.gov.in/reports-and-statistics/reports/aug-2020/consultation-paper-on-the-format-for-business-responsibility-and-sustainability-reporting_47345.html

Particularly focusing on the banking sector in 2019, the RBI proposed corporate governance reforms in the banking and non-banking space to improve transparency and accountability. It stated that the government, the Bank Board Bureau and the Reserve Bank would be working on developing an objective framework for performance evaluation of public sector banks (PSBs), which would redefine the contours of corporate governance in PSBs with a focus on transparency, accountability and efficiency; for the private sector the apex bank, proposed strengthening and independence of the compliance function, to ensure greater effectiveness; in the same lines in June 2020, RBI is to ensure greater transparency in lending practices, has instructed financial institutions to monitor their digital lending platforms and create awareness about the grievance redressal mechanism.[72]

FIGURE 10: BANKS' POLICY COMMITMENTS TO THE THEME OF ACCOUNTABILITY AND TRANSPARENCY



Internal Operations

It is encouraging to see IDFC Bank introduce its "Environmental and Social Policy Framework" in the public domain, describing its finance and investment framework regarding environmental and social issues.

All assessed banks complied with the disclosures norms as per SEBI's BRR obligations and three banks published sustainability reporting based on the GRI Framework. However, sustainability reports of only two financial institutions have been verified externally. Disclosure of sector-wise exposure is also common and is in compliance with Basel III norms. All eight assessed banks report their credit exposure to sectors and industries as per Basel III requirements. However, none of them disclose names of companies or governments in which they invested, nor, did they publish names of companies that are excluded from investment due to sustainability issues.

With regard to consulting other stakeholders such as civil society organizations with a view that they can be knowledge-bearers with the capacity to inform the Bank's core business practices, none of the banks seem to do so. With the exception of Federal Bank none

72 https://www.businesstoday.in/sectors/banks/rbi-flags-concerns-over-non-transparency-violation-of-norms-in-digital-transactions/story/407925.html

of the other assessed banks have any policy mention of grievance mechanisms for non-customer and non-employee stakeholders. The scope of Federal Bank's whistle blower policy covers NGOs and the public at large thereby creating a mechanism for all stakeholders to report their grievances.

Investee Companies

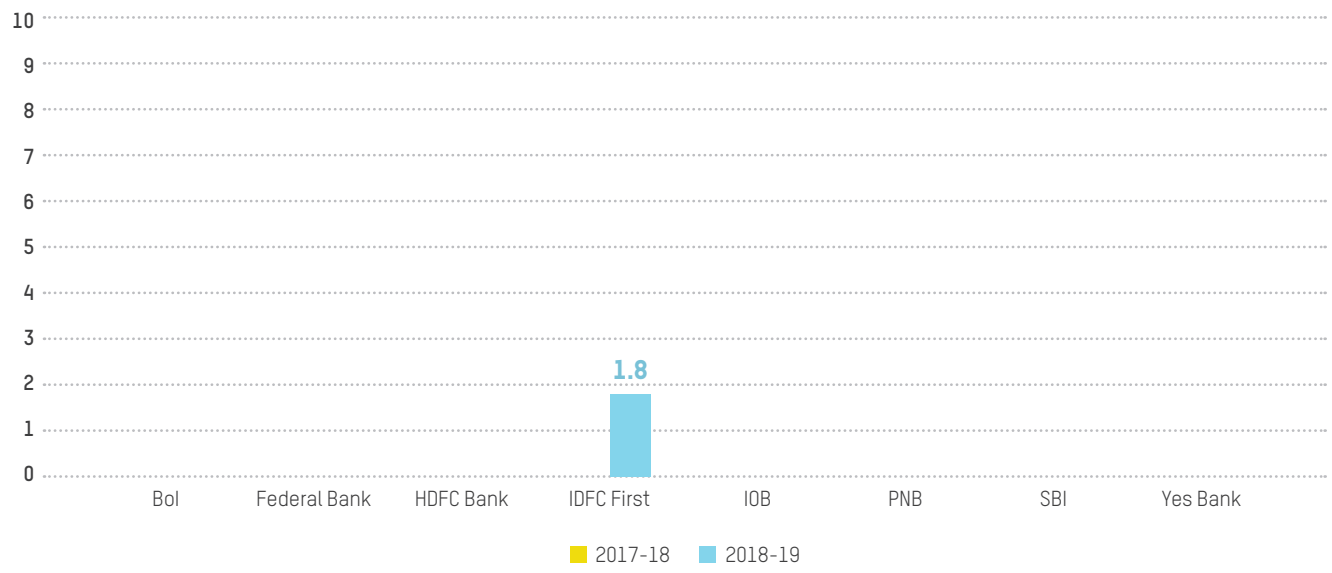
No questions pertaining to internal questions

3. TAX

Taxation has been the primary source of revenue for countries across the world. India has a structured tax system that employs both progressive and proportional taxation based on income and other factors and is determined by central and state governments. Its tax to GDP ratio is of 2018-19 was 10.9 per cent. According to the Ministry of Finance, '*Only 1 per cent of the Indian population pays income tax and declares earnings above the non-taxable income. Only 5.78 crore income tax returns were filed by individual taxpayers for the financial year 2018-19 till February 2020. Out of this, only 1.46 crore individual taxpayers filed returns declaring income above Rs 5 lakh*".[73] According to the 15th Finance Commission the country needs to bring in deep reforms in the revenue management system,[74] to address this wide gap and issue.

India's relatively low figures could be indicative of the reduced collection of service taxes, comparatively high GDP growth as well as income tax evasion prevalent among large corporations and many individuals. According to Tax Justice Network, an independent research based international network's inaugural Report 'The State of Tax Justice – 2020', India's annual tax loss aggregates to $10.3 billion.[75] Analysis of parliamentary questions reveals that not only the direct tax but incidents of tax evasions are also prevalent in indirect tax. During between July 2017 to August 2020, 906 cases were filed against exporters for fraudulent claims of GST refund, in which the quantum of tax evasion was Rs 2,551.15 crore, out of which, only Rs 293 crore could be recovered.

FIGURE 11: BANKS' POLICY COMMITMENTS TO THE THEME OF TAX



73 https://www.financialexpress.com/economy/only-1-of-india-pays-income-tax-govt-shows-proof-tax-evasion-still-a-major-roadblock/2088141/

74 Read more at:https://economictimes.indiatimes.com/news/economy/indicators/indias-tax-revenue-below-potential-by-about-four-percent-of-gdp-says-nk-singh/articleshow/82218419.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

75 http://timesofindia.indiatimes.com/articleshow/79320131.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Internal Operations

Indian banks appear to have a lot of ground to cover in the area of tax transparency, with none of the assessed banks publicly disclosing any policies on tax transparency either for their internal operations or for their investee companies, with the exception of IDFC bank that reports on its revenues, profits and tax payment to the government with respect to the only country it is functional in, i.e., India. None of the other banks give details of their profits, revenues, subsidies or taxes in the other countries they operate in apart from India.

Investee Companies

None of banks have any disclosure on questions pertaining to investee companies.

CUMULATIVE SCORE FOR THE BANKS ACROSS DIFFERENT THEMES

	BANKS							
THEMES	BOI	Federal	HDFC	IDFC	IOB	PNB	SBI	YB
1. Climate change	0	0	0.2	0.5	0	0	0.2	0.6
2. Nature	0	0	0	3.7	0	0	0	0
3. Gender equality	0.3	0.7	0.7	0.8	0.7	0.3	0.7	1.0
4. Human rights	0	0	0	2.1	0	0	0	0.8
5. Labour rights	0	0.3	1.5	3.9	0	0	0	1.0
6. Taxes	0	0	0	1.8	0	0	0	0.6
7. Arms	-	0	0	0.9	0	0	0	0
8. Financial inclusion	6.5	7.3	7.7	6.5	8.1	7.3	7.7	8.1
9. Transparency & Accountability	0.8	1.5	2.2	1.1	0.8	0.8	1.3	2.1
10. Corruption	3.8	1.3	2.5	0.8	1.7	4.2	1.7	0.8

WAY FORWARD

The year 2018-19 indeed unique one where the policy makers where trying to paint an 'all is well' picture. But the Yes Bank crisis and merger of 10 public sectors banks into one entity speak otherwise. The Indian financial sector is clearly not in the best state and this should be attributed to the banks and regulators alike.

There have been long and sustained efforts towards financial inclusion by the government, RBI and banks, and the results are visible. This demonstrates that political will coupled with strict regulations and monitoring can yield results over the long term. As for commitment to other themes relating to environment and human rights, the Indian financial institutions are far behind. Even though India has ratified many international conventions and has made commitments under the domestic frameworks NGRBCs and NAP, converting these commitments into affirmation actions remains slow.

Indian banks have an opportunity to promote transparency by publishing sufficient details about their investments, their policies and their influencing strategies. This can help foster higher levels of trust and certainty amongst investors and the wider public thus promoting wider economic stability. At the same time, banks have a crucial role to play in reducing the huge losses to public finances that result from tax avoidance and tax evasions by reporting themselves, as well as seeking to ensure that the companies they finance are also more transparent about their tax practices.

The regulators need to urgently push the financial sectors towards more disclosures and better practices, especially in their lending practices. More long-term and sustainable approaches need to be adopted, with a keen focus on rights holders – the communities affected by operations of businesses – on the companies' financial institutions lend to. More and more investors are pushing towards green bonds and green investments, and the Indian financial institutions are feeling the rush, too, as they do not function in asylum.

Mergers are only a temporary solution to solve an issues. The larger questions are – how did it even come to such a situation? Till what end will we keep merging entities? Are we waiting for another financial crisis to take place? It is time now that Indian regulators acknowledge the adoption of ESG standards by financial institutions. The UN Principles on Responsible Investing and UN Global Compact would be a good starting point, but it is equally important to have guidelines contextualised according to economy and needs are much needed.

The Committee on Business Responsibility Reporting recommended a new two-format reporting framework called ''Business Responsibility and Sustainability Report (BRSR)''. Companies are encouraged to be early adopters to the BRSR, thus being at the forefront of the sustainability reporting. One of the recommendations of the committee was to form non-financial reporting guidelines that pertain to different sectors. Reporting guidelines pertaining to the financial sector could be a game changer to encourage the companies to improve the quality and quantity of their disclosure.

ANNEXURE 1

YES BANKCRISIS

YES BANK – THE RISE AND FALL

As per FFI's policy assessment, Yes Bank was one of the higher scoring banks across various themes. Some of the major highlights from last year's policy assessment with respect to Yes Bank are:

- Yes Bank allocated around Rs 1,000 crore in proceeds from green bonds across 9 projects in the country.
- It is the only Indian bank to be a signatory to the United Nations Global Compact. It is also a part of its Governing Council.
- It has an Environmental and Social Policy in place in which it mentions about the process to undertake E&S compliance.
- It publishes a sustainability report in accordance with the Comprehensive option of the Global Reporting Initiative (GRI) Sustainability Standards.

As is clear, while the bank has various initiatives for the E and S parameters of ESG, it lags behind as far as G (transparency, corruption) is concerned. At the same time, however, it must also be noted that there seems to be a gap between its promises and practices. For e.g., while the bank mentioned that it is a signatory to the UNGC, it does not explicitly mention anywhere that it applies to its lending operations as well. Its last Communication of Progress Report was submitted to UNGC in 2017. Similarly, it mentions that it "supports recommendations of the Financial Stability Board's Taskforce on Climate-related Disclosures (TCFD) and is committed to implementing the disclosure recommendations", however, it does not disclose any climate-related impacts online with the recommendations of the TCFD.

In 2020, a 30-day moratorium was placed on Yes Bank by the RBI, raising fingers on corporate governance practices and business ethics of the bank. The RBI cited Yes Bank's failures to raise a new funding to cover its non- performing assets, inaccurate statements of confidence in its ability to receive new funding, and its underreporting of its non-performing assets, among other factors, as the impetus for this moratorium.

To understand the collapse better, it would be pertinent to understand the trajectory of the same.

BACKGROUND

In the late 1990s and early 2000s, bankers Ashok Kapur, Rana Kapoor & Harkirat Singh together joined hands with Rabo Bank to set up a commercial bank. Rabo bank was an AAA rated private bank and was amongst the top 15 banks in the world in terms of balance sheet size then. The initial Infusion of capital by promoters as well as the Rabo Bank promoters (which included Rabo Bank and other private equity investors) was thus firmly in place by 2004.

In May 2004, RBI granted license to Yes Bank to commence commercial banking. The management decided that the initial focus of the bank would be on following thrust areas, viz, Commercial and Institutional banking, Business banking, financial markets and transaction banking.

The company, in October 2004, was awarded "A1+" Rating by ICRA (Moody's affiliate) for the Bank's Certificate of Deposit programme (size - INR 10 bn). Subsequently, the company obtained the ISO 9001:2000 Certification for back office processes and operations. In June 2005, the company came up with an IPO which was a resounding success, having been oversubscribed more than 30 times. That reflected the unstinted faith of the investing public on the unprecedented growth of the Banking industry of that time.

Yes bank then carried out its initial branch roll-out strategy driven by its concentration on focus sectors. The key drivers were a) the Comprehensive nature of its Liabilities and the distribution network of all the bank's

products to mass and affluent segment b) Leverage on the unique selling proposition of the bank (i.e. YES service standards), and c) Its latest technology in a strategic tie up with Wipro.

To ensure efficiency in working, the company invested on the latest software for its Cash Management and Treasury solutions, which were considered the best in the industry. It slowly expanded towards providing structured solutions to meet specialised and complex client requirements, particularly in the fields of infrastructure, real estate & financial restructuring. In other words, the Bank was aiming towards a "One-Bank approach" resulting in Fee income being equivalent to 50% of total income on a continual basis.

RISE AND FALL

Positioning itself as the "new age" bank with a difference, Yes bank was able to build itself a sustainable client base with an envious list of corporate and individual clientele. The bank, apparently, was able to implement its objectives that it had set out to fulfil. The bank's offerings were second to none on a platform.

Upon the death of Ashok Kapur during the 2008 Mumbai terrorist attack, Rana Kapoor assumed leadership and unleashed an energy by setting yearly targets and pushing the team towards the avowed objectives. The results also showed. He managed to push the balance-sheet size to a staggering Rs 136,170 crore and a loan book of Rs 75,550 crore by 2014-15. The bank's gross NPAs started mounting too, though were still just 0.41 per cent. The bank gained strength on a variety of performance parameters.

Rana Kapoor's National positioning was leveraged by the Bank to reach-out to corporate customers. Some of these, included corporate customers (Reliance ADAG Group, DHFL, HDIL, ESSEL Group, Cafe Coffee Day and Jet Airways) with high leverage on their balance sheets; and profitability under severe stress. The strategy of Yes Bank was simple – any corporate customer was good – as long as there was sufficient collateral and a good fee income / additional interest as a trade-off in relation to the quality of the asset. The strategy turned out to be good when there was an uptick in the industrial cycle.

Around the same time, the bank decided to project itself as a sustainable bank, by taking various initiatives including being the first Banks in India to join the United Nations Global Compact and committed itself to the 10 principles of the Compact on Labour Rights, Human Rights, Environment and Anti-corruption. The Bank has a dedicated team for triple bottom line reporting within the Responsible Banking unit, which worked on ESG disclosures since 2009. The journey began with setting up internal processes to capture carbon emissions data, and improving the data accuracy with improved data collection each year. Gradually over the years, the Bank improved its ESG disclosures and reported its ESG performance on latest available sustainability reporting guidelines. The Bank has also adopted ISO 14001:2015 Environmental Management System, which has enabled the bank to measure and monitor environmental KPIs and been a catalyst to behavioral change in employees towards supporting energy efficiency and low carbon initiatives. ESG disclosures through frameworks such as DJSI, MSCI, FTSE4Good and CDP, also improved through bespoke business unit action plans for reporting improvements.

During the period, however, the banking sector itself was reeling under the constantly increasing NPAs as well as other systemic issues relating to sluggish credit off-take which depressed the profitability of the constituent banks across the canvas.

TIME RUNS OUT FAST FOR YES BANK (2013-2018)

In September 2014, the bank announced that it had received ratings upgrade from the leading credit rating agency ICRA & CARE for its long term debt programmes. On 15th Feb 2018, the bank announced the listing of its debut $600-million bond issue under its maiden $1billion MTN programme on Global Securities Market (GSM) of India INX, the country's first international exchange and its first capital raising platform for international investors in any currency International Financial service Centre (GIFT City) IFSC located in Gujarat. This was the largest debut international bond issuance by an Indian Bank, and was also listed on the London Stock Exchange International Securities Market and Singapore Exchange Securities Trading Limited.

The Bank, in its various investor presentations, presented eye catching parameters, including: Advances – 22.7 billion, Deposits – 24.1 billion, Branches 1040, ATM 1800 +, Staff 20000 +, Market capitalisation 12.3 billion USD, Net profit 153 million, CASA 37. 2 %, Capital adequacy 17.8 %, Net NPA – 1.04 % (GNPA–1.82 %), NIM – 3.7 %, Market share – 1.8 % (ever growing from 1.1 % to 1.8 % in four years).

Then two significant events happened: First, the Section 35 audit of the Reserve Bank of India (RBI) of the bank for the year 2015-16, that took place in 2017 (See Table below). The gross NPAs reported by the bank in FY '16 were at Rs 748.98 Crs. RBI, in its audit reckoned that the bank was suppressing its NPAs, as they reported the deviation of the previous year. The NPAs identified by the RBI were at Rs 4925.68 Crs, a phenomenal deviation from what was reported by the Bank. The Gross NPA % disclosed by the Yes Bank as on March 2016 stood at 0.76%, which should have actually been at 5.01%, according to RBI.

There were also serious issues on the provisioning done by the bank with respect to some of the large stress accounts. RBI took its own course of action and penalised the Yes Bank for 'violations of various regulations issued by RBI in the assessment of NPAs'. A penalty of Rs 6 crore was imposed on account of asset classification issues and a delay in reporting a security incident across its ATM networks in the previous year.

The second issue that snowballed was in April 2018. RBI, as a part of its overall ongoing supervision, raised issues of corporate governance and "serious lapses" with the functioning of Yes Bank Ltd. In its subsequent comments RBI observed: "Persistent governance and compliance failure reflected by the bank's highly irregular credit management practices, serious deficiencies in governance and a poor compliance culture". While maintaining its stance, RBI refused to extend the tenure of Rana Kapoor for a further term. It rejected Rana Kapoor's appeal for his continuance in the Board of the Bank.

The above two major incidents of 2017 and 2018 reveal the extent of governance and transparency issues that had been persisting for a long time.

18.5.6.3 DIVERGENCE IN ASSET CLASSIFICATION AND PROVISIONING FOR NPAS – (REF DBR. BP.BC.NO. 63/ 21.04.018/2016-17 DATED APRIL 18, 2017)

₹ in millions

Sr. No.	Particulars	
1	Gross NPAs as on March 31, 2016 as reported by the Bank	7,489.81
2	Gross NPAs as on March 31, 2016 as assessed by RBI	49,256.81
3	Divergence in Gross NPAs (2-1)	41,767.00
4	Net NPAs as on March 31, 2016 as reported by the Bank	2,844.74
5	Net NPAs as on March 31, 2016 as assessed by the RBI	36,031.49
6	Divergence in Net NPAs (5-4)	33,186.75
7	Provision for NPAs as on March 31, 2016 as reported by the Bank	4,645.07
8	Provision for NPAs as on March 31, 2016 as assessed by RBI	13,225.32
9	Divergence in provisioning (8-7)	8,580.25
10	Reported Net Profit after Tax (PAT) for the year ended March 31, 2016	25,394.47
11	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2016 after taking into account the divergence in provisioning	19,783.84

YES BANK – THE IRREVERSIBLE DECLINE; THE COUNTDOWN TO COLLAPSE

Yes Bank's earnings report card for the fourth quarter FY19 was giving mixed signals. The Gross NPAs, in that quarter, was just 3.22 percent. The high proportion of corporate loans on Yes Bank's books meant huge swings in NPAs even if one account went bad. Gross slippages amounted to Rs 3481 crore. Out of this, Rs 1,081 crore came from just two accounts, one an airline company and the other an infrastructure firm.

Six months later, by September, 2019, the Gross NPAs surged to over 7.39 percent and the bank reported fresh slippages of Rs 5,950 crore in the September quarter. Rating agencies and analysts cautioned that the actual GNPA ratios could have been much more — at about 12%. By 30th Sept 2019, the loan book had grown to nearly FOUR times as much as 2.25 trillion.

In the September 2019 quarter results statement, Yes Bank assured shareholders and analysts that it had received a binding offer from a global investor for an investment of $1.2 billion, these however, turned out to be a hoax.

On January 10, 2020, Uttam Agarwal - one of the independent directors and Head of bank's audit committee - quit, raising serious corporate governance issues. In a letter to the Securities and Exchange Board of India (SEBI), Agarwal accused Ravneet Gill, the new CEO, of lack of transparency in sharing updates on fundraising exercises to the Board. The letter alleged that Gill had to be reminded repeatedly to share information on the capital-raising plans, that the term sheets he eventually shared lacked essential details, and that the expressions of interest by three domestic investors were termed as commitments.

On 5 March 2020, the RBI announced that, in the interest of its customers and depositors, it would suspend and supersede Yes Bank's Board and impose a 30-day moratorium on its operations. The RBI cited Yes Bank's failures to raise a new funding to cover its non- performing assets, inaccurate statements of confidence in its ability to receive new funding, and it's underreporting of its non-performing assets, among other factors, as the impetus for this moratorium.

Subsequently, on 13 March 2020, the Union Cabinet approved the reconstruction scheme for Yes Bank pointing out that within three days of the notification of the scheme the moratorium would be lifted. During this reconstruction, seven investors infused 12000 crore into Yes Bank and Prashant Kumar was proposed as new CEO of the bank. These investors include State Bank of India, ICICI Bank, HDFC Bank, Axis Bank, Kotak MahindraBank and others.

WHAT WAS THE GENESIS OF THE YES BANK FIASCO?

Having thus studied the gradual downfall of Yes Bank, it is important that we also look into origin of trouble for Yes Bank:

- The exposures in some of the companies (many of which were refused by the top notch banks- IL&FS, Dewan Housing, Jet Airways, Cox & Kings, CG Power, Cafe Coffee Day, and Altico) were extremely huge. It was very much evident that, in times of economic slowdown, these companies operating in stressed sectors would become ripe candidates for default and leave a potential hole in the balance sheet of the lender. The exposure in each of the companies was significant. It took nearly 3-4 years for the stress to show up.

- Yes Bank did not have strict lending standards. One may safely say that the decision towards lending to large corporates was centric to and dependent on one individual Rana Kapoor, who was the ultimate deal maker. In such a scenario, the various checks and balances that accompany the evaluation of a standard credit proposal were not applied.

- It was a known fact in the banking circles that Yes Bank would lend to corporates outside of consortium lending, thereby inviting the ire of the consortium lenders. In fact, it often supported companies that were finding it difficult to get any money from existing lenders. This route not only gave Yes Bank a higher interest rate, but also secured a collateral against that loan. But when things turned bad, the bank found it difficult to monetise the collateral either. What looked like a master stroke at that point in time turned out to be the bank's nemesis in the end.

- It thus follows from the above, that the bank's Board was acting as a rubber stamp to the decisions taken by one person. All norms relating to Corporate Governance were being flouted and business ethics were violated. The bank was being subjected to periodic statutory and concurrent audit from time to time. Surprisingly the external auditors also did not raise the red flags at any point about the spike in the advances portfolio, the phenomenal growth in fee income and the quality of the borrowers that were being added to the portfolio.

- RBI, on its part, came across large variations in the balance sheet of the bank (2015-16) during its audit in 2017. It is not clear whether the efforts taken by the regulator in the matter was sufficient to arrest the downfall of the bank. Ideally, the promoter director should have been held responsible for this state of affairs. But, in this case, there was not much that RBI did to make Rana Kapoor accountable for this situation. RBI should have rather acted with more seriousness and vigour to stem the flow of tide against the bank immediately thereafter.

- The company, from its inception, had been placing a lot of thrust on robust environmental and social risk management practices. These practices, aimed at an attempt to recognize, evaluate, monitor and manage the environmental and social facets in day-to-day decision-making process, had assumed critical importance for the bank. In all its annual reports / investor reports over the years, the bank had claimed, the adoption of a structured Environment and Social policy approach towards its lending activities. Through this policy, the Bank had claimed to have integrated environmental and social risks into its overall credit risk assessment framework in line with international frameworks such as Equator principles and IFC guidelines. The bank also had claimed that the Environment and Social Policy was a crucial part of the Bank's credit risk appraisal process, which goes beyond the realm of financial risk mitigation.

From the above, it is amply clear that the fall of Yes bank was not because of just systemic issues but also poor corporate governance, lack of transparency, and non-adherence to laid down policies and processes. The lack of adherence to prudent lending guidelines compromised the entire mission and vision of the bank in this regard. The bank also failed to adhere to it's a vowed mission towards integrating sustainability principles into its core business strategies and processes.

In December 2020, however, Prashant Kumar, MD and CEO of the bank said that he could see the bank recovering 50% of Rs 40,000-crore bad loans. "To rebuild the confidence of the stakeholders, it was not only important to recognise the problems, but also be transparent about them", he said. We could not have agreed more!

Designed by Anandita Bishnoi

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