

## LESSONS FOR THE INDIAN BANKING INDUSTRY FROM THE BANK FAILURES IN THE UNITED STATES

Sivakumar Venkataramany, Ashland University, Ashland, OH, U.S.A.

[dx.doi.org/10.18374/JIFE-23-2.4](https://doi.org/10.18374/JIFE-23-2.4)

### ABSTRACT:

*The Indian banking industry is mature and efficient. However, it has witnessed nearly 38,000 instances of fraud involving a total amount of \$22 billion in the last five years. The \$1 billion fraud using the Society for Worldwide International Funds Transfer (SWIFT) platform in Punjab National Bank emphasizes the importance of internal control within the bank and the regulator's failure in supervision. The amalgamation of the Lakshmi Vilas Bank (LVB) with the DBS Bank, Singapore was necessitated by large continuous losses in three consecutive years leading to erosion of equity. The liquidity stress faced by the Infrastructure Leasing & Financial Services (IL&FS) and Dewan Housing Finance Ltd. (DHFL) indicated the unsustainable market funding conditions for the non-bank financial corporations (NBFC). The Reserve Bank of India initiated the Corporate Insolvency Resolution Process (CIRP) in order to finalize the resolution of Dewan Housing Finance Corporation Limited (DHFL) after noticing misuse of customer funds. Despite 3,518 bank failures from 1980 to the present day, the banking industry in the United States is strong with assets valued at \$24 trillion and deposits of \$20 trillion thanks to the robust functions of the Federal Deposit Insurance Corporation (FDIC). Its coverage of 4,817 banks is a model for the Indian Banking industry that is plagued with the myth of benefits of nationalization, mounting non-performing assets, and instances of frauds. This paper offers empirical evidence of the strength of the US banking leading to suggestions of policy reforms for its counterpart in India.*

**Keywords:** bank failure, deposit insurance, regulation, nationalization

### 1. INTRODUCTION

The Indian banking industry is mature and efficient and the country's central bank, The Reserve Bank of India (RBI) has been exemplary in its disclosure and transparency. However, it has witnessed nearly 38,000 instances of fraud involving a total amount of \$22 billion in the last five years. The \$1 billion fraud using the Society for Worldwide International Funds Transfer (SWIFT) platform in Punjab National Bank emphasizes the importance of internal control within the bank and the regulator's failure in supervision.

The amalgamation of the Lakshmi Vilas Bank (LVB) with the DBS Bank, Singapore was necessitated by large continuous losses in three consecutive years leading to erosion of equity. The liquidity stress faced by the Infrastructure Leasing & Financial Services (IL&FS) and Dewan Housing Finance Ltd. (DHFL) indicated the unsustainable market funding conditions for the non-bank financial corporations (NBFC).

The Reserve Bank of India initiated the Corporate Insolvency Resolution Process (CIRP) in order to finalize the resolution of Dewan Housing Finance Corporation Limited (DHFL) after noticing misuse of customer funds. Despite 3,518 bank failures from 1980 to the present day, the banking industry in the United States is strong with assets valued at \$24 trillion and deposits of \$20 trillion thanks to the robust functions of the Federal Deposit Insurance Corporation (FDIC). Its coverage of 4,817 banks is a model for the Indian Banking industry that is plagued with the myth of benefits of nationalization, mounting non-performing assets, and instances of frauds. This paper offers empirical evidence of the strength of the US banking leading to suggestions of policy reforms for its counterpart in India.