



To study banking system failures in developing transition country with reference to India

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Abstract: *Your financial fairy godmothers, granting wishes (and loans).*

Have ever met startups fairy godmothers wearing power sleek suits and wielding checkbooks? Of course, we are talking about banks, and their clamorous role in nurturing the vibrant ecosystem of innovation and entrepreneurship. They may not get the headlines but are the real silent heroes behind the scene.

From Seed Money to Sequoia: While slick code and audacious ideas spark the fire, it's the fuel equipped by banks that allows unicorns start-ups to truly take flight. From initial seed funding to growth-stage loans, banks act as the pecuniary Launchpad, propelling fledgling ventures into the stratosphere of success.

From Vaults to Ventures: At ancient times dragons hoarded gold, but in today's fiasco the real guardian of treasure trove

are banks their glories not only unlock personal dreams but also the powerhouse of economic growth. Let's crack open the vault and discover the magic of banks.

Its acts like financial springboards for innovations, works as safe haven for your hard-earned money, weaves the financial arras and goes beyond the numbers.

This research paper focuses on the bank crises situation and its impact on the Indian economy, acknowledging the global problem faced by the banking sector. The study explores historical context, current bank functioning, government schemes, challenges and significance of sustained growth of bank for sound economic growth and financial stability

The paper introduces two different banks namely Silicon Valley Bank and IDBI Bank for the framework of study. It then delves into the social and economic impact on the daily life of the people, in the context of India. Then we also conducted survey for obtaining peoples opinion on the topic.

Keywords: *Bank crisis, Government Schemes, arras, haven.*

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Introduction:

"Banks are like patients who need medicine to reduce their fever, but instead they are being given sedatives to numb the pain." (Admati and Hellwig, 2013).

The study covers multifarious aspects of banking and its impact. In the starting of the research, we explore the history of banking, its evolution and various significant shifts, shaping the banking scenario of the current around the world. Then we delve into Indian banking scenario from ancient times. We tried to

highlight the important steps being taken by Indian Government like Nationalization of banks and Liberalization for strengthening the banking sector.

Then we have explored about types of banks in India, different types of accounts and functions of bank. The different types of banks are namely Central Bank, Commercial banks, Cooperative Banks, Payment Banks and Small Finance Banks.

In second part we have discussed about what is bank failure, what factors lead to bankruptcy, effects of failure on the country's economy and its aftermath. We have taken IDBI Bank and Silicon Valley Bank for the case study. The challenges faced by them. Then we have discussed about Government schemes for the development of banks, whether they are good enough or not. Some schemes are Capital Infusion, OTS, NCLT and 90 days NPA.

The final section deals with data analysis and calculation part to show the symbiotic relationship of people's life and banking sector. The above is done keeping Government schemes in practices.

In summary, the research paper offers a comprehensive study of banking crisis and its impact addressing the historical, economic and social aspects while emphasizing the need of sustained growth and fund management of bank.

Government Schemes for development of Bank:

- Nationalization of Bank: It was on July 19, 1969, when the Prime Minister Indira Gandhi blazoned the nationalization of 14 marketable Indian banks with deposits of over 50 crores. There are 14 banks that were nationalized banks in 1969 (WebTeam, 2022).
- Recapitalization of banks, i.e., capital infusion into the banks, started in India in the 1990s when the Indian frugality was on a downcast growth line. Recapitalization is the process of restructuring a company's debt and equity mixture, often to stabilize a company's capital structure (Kenton, 2020).
- One Time Settlement (OTS) One-Time Settlement or OTS, schemes are typically designed to help banks recover non-performing

assets (NPAs) by providing borrowers with a one-time opportunity to settle their overdue debts. Under OTS, the borrower offers to pay a reduced amount, often less than the total outstanding, in a single lump sum or a few installments. In return, the bank agrees to settle the loan, close the account, and waive off the remaining outstanding amount (Sharma, 2023).

- The National Company Law Tribunal (NCLT) in India primarily deals with commercial and ruin matters. It doesn't have specific schemes for the development of banks. Bank development generally involves non-supervisory fabrics, financial programs, and fiscal sector reforms enforced by central banks or fiscal non-supervisory authorities. National Company Law Tribunal primarily focuses on commercial and bankruptcy matters (Mathur, 2019).
- Debt Recovery Tribunal (DRT) give quick and effective adjudication in the debt recovery of banks and other fiscal institutions. These are established under the provisions of the Recovery of Debt and ruin act- 1993. They arbitrate cases and help in the recovery of loans given by banks and other fiscal institutions. Indian banks and financial institutions had since long been suffering to recover debts and enforce securities from the defaulters. This led to formation of DRT (Dhannawat, 2020).
- The 90 days NPA (Non-Performing means) scheme generally refers to a frame where a bank allows a borrower a grace period of 90 days to amend overdue payments before classifying the loan as a non-performing asset. This scheme aims to support borrowers facing temporary fiscal difficulties, giving them an occasion to recover and avoid negative consequences.

NPA refers to classification for loans or advances that are in default or in arrears (Tuovila, 2021).

Objectives:

1. General objective of the study: The main objective of the research was to study bank crisis and its impact on Indian economy.
2. Specific objective of the study: To determine whether government schemes are good enough to avoid bank crisis and work for banks betterment.

To determine people's opinion on bank crisis on the basis of their occupation and age.

To determine meticulous schemes for sustained growth and fund management for banks.

Methodology:

The study is conducted at Patna Women's College Autonomous Patna University NAAC Reaccredited A-Grade, "College with potential of excellence" (CPE) Status accorded by UGC.

This research is conducted on a sample of 253 respondents from students of different colleges and departments using a structured questionnaire through Google form. The students agreed to fill out the questionnaire on the study of banking system failures and in developing and transition country with reference to India. In total, 105 males and 147 females and 1 of them prefer not to say participated in this study. The responses are tabulated and analysis.

Target Population: The target population in our study is the various respondents of different age group.

Data Collected Methods: A questionnaire is a research instrument consisting of a series of questions (or other types of promotes) for the purpose of gathering information from respondents.

Primary Data: Primary data is the data that is collected for the first time through personal experiences or evidence, particularly for research. It is also described as raw data or first – hand information.

Secondary Data: Secondary data is a second - hand data that is already collected and recorded by some researches for their purpose, and not for the current research problem. It is accessible in the form of data collected from different sources such as government publications, internal records of

theorganisation, books, journal article, websites and reports.

Data to be collected: The data is collected by keeping in mind the objective of the survey. Data is collected from various colleges of Patna by sending Google forms to the respondent.

Sample Technique Used

Simple Random sampling: "Simple random sampling is a method of sampling in which every set of n units in the population has an equal probability of being selected as the sample" (Cochran, 2013).

The objective of the survey was related to age criteria and employment of people. There are 105 males, 147 females out of 253 respondents in which 80 are employed and 173 them are unemployed. Here we do simple random sampling.

Hypothesis: Hypothesis is a statement or an assertion, the validity of which is yet to be determined.

Null Hypothesis: A hypothesis under test is known as null hypothesis. It is usually noted by H_0 .

Alternative Hypothesis: A hypothesis in favour of which null hypothesis is rejected is known as alternative hypothesis. It is denoted by H_1 .

Chi-Square Test : The responses gathered were further analysed with the help of chi - square test.

The square of a standard normal variate is known as chi-square variate with 1 degree of freedom (Gupta and Kapoor, 2021).

A Chi-Square test, also written as test, is any statistical hypothesis test where in the sampling distribution of the test statistic is a chi-squared distribution when the null hypothesis is true.

Thus, if $X \sim N(\mu, \sigma^2)$, then

$$Z = \frac{X - \mu}{\sigma}$$

where,

χ is the outcome

μ is the mean

σ is the standard deviation

Analysis and Calculation:

Total of 253 respondents of different age was the population of our research out of which 68.4% are unemployed and 31.6% of them are employed.

- To test employment status of respondents is related to whether government doing enough to prevent bank failures.

Employed* Government steps are enough Cross tabulation		Government steps are enough				Total
		Yes, more than enough	Yes, but could do better	No, not doing enough	Not sure	
Employed	Yes	26	37	16	1	80
	No	50	87	23	13	173
Total		76	124	39	14	253

Calculation:

Ho: The employment status is independent of how they perceive the initiatives taken by government.

H1: The employment status is not independent of how they perceive the initiatives taken by government.

Level of significance = 5%

Degree of freedom : 2

Conclusion:

Since calculated value of $\chi^2(2.047)$ is less than its tabulated value (5.991), so we accept the null hypothesis (Ho) at 5% level of significance.

Hence, we conclude that employment status is independent of how they perceive the initiatives taken by government.

- To test whether employment status has a relation to knowledge of banking system.

Employed* Knowledge of banking		Knowledge about the functioning of banking system				Total
		Very confident	Some what confident	Not Confident	Don't know	
Employed	Yes	41	34	4	1	80
	No	32	92	25	24	173
Total		73	126	29	25	253

Calculation:

Ho: The nature of employment status is independent of their knowledge in banking system.

H1: the nature of employment status is not independent of their knowledge in banking system.

Level of significance = 5%

Degree of freedom : 1

Conclusion:

Since calculated value of $\chi^2(34.25)$ is greater than its tabulated value (3.841) so we reject the null hypothesis (Ho) at 5% level of significance.

Hence, we conclude that employment status is not independent of respondent's knowledge in banking system.

- To test whether an employed respondent perceive it differently about the impact of banking system failures on overall economy.

Employed* Impact of failures Cross tabulation		Impact of banking failure on overall economy				Total
		Severe economic downturn	Moderate economic downturn	Limited economic downturn	No impact	
Employed	Yes	38	33	8	1	80
	No	77	68	24	4	173
Total		115	101	32	5	253

Calculation:

Ho: The employment status of respondents is independent of how they think that banking system failures on overall economy.

H1: The employment status of respondents is dependent of how they think that banking system failures on overall economy.

Level of significance = 5%

Degree of freedom : 1

Conclusion:

Since calculated value of $\chi^2(0.77)$ is less than its tabulated value (3.841) so we accept the null hypothesis (Ho) at 5% level of significance.

Hence, we conclude that employment status is independent of respondents of how they think that banking system failures on overall economy.

Indian Companies funding with SVB

Company	Total Funding (USD)
Shaadi.com	8,000,000
CarWale	9,873,512
Asklaila	12,000,000
Sarva	12,281,001
Games2win media	13,085,782
Loylty Rewardz	28,270,232
PubMatic	31,000,000
Drip Capital	85,120,000
Numerify	88,000,000
TutorVista	102,250,000
BlueStone	111,502,585
Naaptol	133,305,783
Icertis	520,000,000
Paytm Mall	808,241,000
Paytm	4,637,862,461



Interpretation: The above chart shows the frequency distribution of total funding done by SVB to Indian start-ups. Start-up exposure to SVB are mainly of three forms:- Money deposited with SVB bank, Equity funding received from SVB and Debt funding received from SVB (Mukhopadhyay, 2023).

IDBI Shareholders:

Company	Total holding stakes (%)
LIC	49.24
Government	45.48
Others	5.28



Interpretation: The above charts shows that LIC and government hold 49.24% and 45.48% stake respectively. The remaining shareholding is with public. IDBI faced crisis but was saved from it at the cost of being privatised, lost its market shares, capitals, profits etc. The above situation isn't suitable for any bank where it has loosed its worth for its survival (IDBI Bank, 2023).

Summary:

Banking is a lifeline of any modernized country. It has a vital role in financial system and its survival is necessary for stability of the economy. In India banks are playing a key role in advancement of the country's post-independence.

A bank is a financial institution that is authorized to accept deposits from the public and lend money for various purposes (Jain, 2022). Banks play a crucial role in mobilizing saving from individuals, businesses, and other entities, and channelling these funds towards productive growth. Bank failure prediction is critical and crucial to formulate method to measure financial distress before it actually happens.

Without functioning financial system, the world economy won't be revived. Bank failures has a major setback on economy, disrupts financial economy and calls for proactive measures, monitoring, continuous evaluation and regulatory framework improvements. Major instability can lead to bank runs, hyperinflation or a stock market crash. It can severely shake confidence in financial and economic system.

Thus, it's a matter of great concern to have continuous monitoring, improvements and regular check on banks.

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