

IndusInd Bank ***CRISIS***

Understanding what went wrong

By- Jagriti Mishra

What happened?

- *IndusInd Bank was in the news for financial trouble.*
- *The crisis started when the bank aggressively increased foreign (NRI) deposits in 2020.*
- *The core issue lies in currency conversion and hedging.*

How Banks make Money

- *Banks accept deposits at low interest rates.*
- *They give loans at higher interest rates.*
- *The difference is their profit.*

The Real Problem

- *IndusInd Bank* accepted deposits in USD *and* converted them to INR.
- *When they had to return the money, the USD value increased (e.g., ₹80 → ₹90 per USD).*
- *This led to huge losses.*

Hedging Mechanism

Banks usually hedge currency risks in two ways:

- 1. Internal Hedge: Fixing the exchange rate within the bank.*
- 2. External Hedge: Using third-party contracts.*

RBI banned internal hedging, meaning banks had to book losses immediately.

IndusInd Bank Mistake

Instead of following RBI guidelines, IndusInd delayed losses.

- Top management sold ₹200 crore worth of shares before revealing the issue.*
- This is similar to “front running”, where insiders benefit before bad news hits the public.*

Impact and Conclusion

- *Financial loss: ₹1800-2000 crore.*
- *Stock market loss: ₹18,000 crore wiped out.*
- *RBI assures deposits are safe, but trust in the bank is affected.*
- *Lesson: Transparency is key in financial institutions.*