

# Banking on Trust: The Case for Greater Transparency After HDFC

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What if firms could put consumer trust on their balance sheets? It sounds absurd because trust is difficult to quantify and impossible to audit. But stay with the thought for a moment. If trust appeared on the balance sheet alongside property, plant, & equipment, and intangible assets, CEOs would think carefully about protecting it. Investors would scrutinize it, weighing its contribution to the firm's future earnings.

Trust is an asset, albeit a fragile one. It produces tangible benefits for any business that holds it. Its value rises and falls with a firm's actions, and sometimes with forces outside its control. But unlike machinery, trust cannot be depreciated on a schedule. It builds slowly, over years of consistent conduct, yet can be destroyed in an instant. It must be reevaluated constantly, and when certain events shatter trust, it must be written off.

In a development that speaks directly to the fragility of trust, earlier this month, Atanu Chakraborty, the part-time chairman and independent director of HDFC Bank, resigned with a statement striking in its restraint: certain practices observed over the past two years, he wrote, were not in congruence with personal values and ethics. The resignation letter did not provide any specifics. The deliberate vagueness makes the letter damning. It is hard to imagine a board member walking away from one of India's most prominent financial institutions and invoking "values and ethics" as a parting explanation, unless something has gone terribly wrong. It leaves investors with a suspicion of misconduct, which can be just as corrosive as hard proof.

The market response was immediate: the bank's share price fell by over 5%. HDFC hastily convened an analyst call, where the interim chairman and managing director delivered prepared remarks aimed at restoring investor confidence. But the Q&A session achieved the opposite. When pressed for specifics, board members said they had repeatedly asked Chakraborty to

elaborate on his concerns, but he provided none. One director added that it was all “a bit baffling.” The interim chairman characterized any differences as relationship-driven and immaterial, and claimed the bank had the strongest form of governance possible in a financial institution. Towards the end of the call, one analyst captured the mood plainly: the outgoing chairman had written some very, very strong words and all he was hearing was that there was nothing specific. It just seems very difficult to believe, the analyst said, that there was nothing they could tell him.

Research finds that confidence in banks erodes not only during headline-grabbing crises but also in response to a steady accumulation of smaller failures, including negative press coverage, opaque product disclosures, and excessive executive compensation. When trust fractures, people may not simply move their money to a competitor; they may abandon the banking system altogether. This undermines banks’ core function as intermediaries between capital-providers and borrowers, and their ability to channel capital to productive uses.

A cryptic resignation letter from a board member at one of the country’s largest private banks could have broader implications, depending on how investors and depositors interpret it. If the resignation hints at deeper governance failures at HDFC and the bank or regulator fails to respond credibly, the fallout may extend well beyond a single institution. It could weaken confidence in large private banks more broadly, push deposits toward public-sector or smaller regional banks, or out of the system entirely. The HDFC episode arrives against the backdrop of a pattern that risks becoming structural. At IndusInd Bank, an internal review in early 2025 uncovered significant accounting discrepancies in its derivatives portfolio. The 2020 collapse of Yes Bank exposed aggressive lending, under-reported bad loans, and governance failures, prompting the RBI to orchestrate a rescue. The ICICI Bank-Videocon episode of 2022 revealed conflicts of interest at the highest levels of management. Each of these institutions was, at the time of its crisis, considered a well-governed bank.

Trust also shapes the effectiveness of bank regulators. Regulators often rely on market discipline as a complementary enforcement tool. By disclosing their enforcement actions, they enable stakeholders to penalize misconduct by shifting funds away from poorly governed banks toward stronger ones. But market discipline works only if disclosures are informative enough for stakeholders to act upon. In the HDFC case, the RBI’s public statement ran barely a page. It offered no specifics about what prompted the chairman’s departure or whether the regulator

intended to investigate his claims. This opacity is not new. In my research examining the 2013 money-laundering scandals, we found that even when the RBI imposed substantial penalties, its disclosures remained terse and broad, offering little evidence for depositors to distinguish one bank's failings from others.

India is not alone in facing an erosion of trust. In the US, Gallup polling shows that confidence in banks declined significantly from 47% in 2002 to 30% in 2025, with negative views cutting across partisan lines. Trust fell precipitously in the aftermath of the 2008 financial crisis and never fully recovered. The collapse of Silicon Valley Bank in 2023 further eroded confidence. The trajectory suggests that trust, once lost, does not rebuild on its own. It must be actively rebuilt through transparency and accountability.

The HDFC episode underscores the need for disclosure reforms to strengthen market confidence. When a director of a systemically important bank resigns, citing concerns around ethics, markets should not be left to infer the underlying issues from vague statements. Such ambiguity can be as destabilizing as confirmed misconduct. Departing directors must be required to provide clear and specific reasons for their resignation, subject to appropriate legal safeguards. Banks should initiate and publicly commit to an independent investigation, with defined timelines and a credible mechanism for disclosing findings.

Regulators play a critical role in shaping market confidence. Silence or minimal disclosure in such situations can amplify uncertainty and further erode trust. Rather than issuing terse, procedural statements, regulators should adopt a proactive communication strategy to provide investors with detailed contextual information.

Restoring trust requires transparency, delivered through timely and credible disclosures. Trust may be an asset no auditor can verify. But it is also the asset that banks cannot survive without.

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