

Gem of a scam: On PNB fraud

A regulatory filing to the stock exchanges by Punjab National Bank has blown the lid off a **11,500-crore fraud**. Perhaps the largest such scam in India, it was perpetrated by a maverick diamond merchant in collusion with bank officials at a single branch in South Mumbai. For India's second largest bank to be defrauded in the manner suggested is astounding, especially since there has been heightened scrutiny of public sector banks' operations in the last few years. The bank's audit committees and boards, as well as the central bank, which conducts routine financial inspections of banks' books, have been ostensibly keeping a close watch on the loans that have turned substandard or are on the verge of default. The government, which has often blamed the pile of bad loans on crony capitalism during the UPA regime, just last month unveiled a plan to infuse about 1 lakh crore into 21 capital-starved public sector banks this fiscal. Of this, 5,473 crore is to be injected into PNB. So even if the actual loss the bank ends up incurring on account of this fraud is half the stated amount, its capital adequacy ratio will be back to the same level before the recapitalisation was announced. Its market capitalisation has tanked 8,077 crore over the past two days, with the share price falling over 20% since the news broke.

PNB-Nirav Modi scam, the story so far

The bank's top brass has said it has acted promptly, suspending around 10 officials. The Central Bureau of Investigation has booked one retired and one serving PNB employee so far. It is also difficult to believe that a handful of junior employees could orchestrate such a massive fraud. The bank's managing director has claimed that supervisory lapses are being probed, and the Enforcement Directorate has initiated a money laundering case against the main accused, billionaire-jeweller Nirav Modi, his wife Ami Modi and close associates and relatives. The firms run by him had seen a meteoric rise and an IPO was in the offing after buyouts of global players and a ramp-up of retail presence in India and abroad. It appears that the bank employees who assisted in the fraud routed large transactions for the borrowers by circumventing the core banking solution. This flies in the face of the government's push for a digital payment economy. PNB has sought to blame overseas branches of other banks for not undertaking due diligence before accepting such transactions, but that may be too simplistic an explanation. An inquiry by the RBI must get to the bottom of the systemic lapses in this affair and fix accountability across the chain of command. The banker-borrower nexus has been blamed for problems in the banking system for years. This episode will set off fears of a nexus deeper than imagined. The RBI and investigating agencies should act speedily to restore trust in the banking system.

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