

Ease of doing scams

India is a corrupt nation. The stain of it is so pervasive in our everyday lives that it should hardly surprise us when big scams are unearthed, periodically. In fact, what is surprising is that they don't happen, or aren't reported, more often. The public-sector banking system is the perfect gateway for most crooks seeking to perpetrate a major scam. Its army of low paid managers — always on the look out for the extra buck — lack of preventive systems and close linkages with people in power make it the most fertile ground for such frauds.

According to the RBI, PSU banks reported loan frauds of Rs 61,260 crore over the last five years. Add the recent [Nirav Modi](#) scam and the number swells to Rs 73,000 crore. These are reported frauds. It is safe to infer that a large part of the current bad loans with PSU banks is also the result of fraudulent deals struck by corrupt bankers in collusion with errant businessmen. Taking kickbacks to sign off on loans worth hundreds of crores, knowing that the money won't come back, is every bit a scam, though it may technically not be labelled one. The actual size of scams facilitated by PSU banks would run into lakhs of crores. We keep a lid on it, to limit public outrage.

Corruption runs deep in our society, not just in PSU banks. In 2017, India was the most corrupt nation in the entire Asia Pacific region according to Transparency International's Corruption Perception Index. We may be taking baby steps up the ease of doing business ladder but on an ease of doing scams index, we are the uncrowned champions. The public sector, loosely speaking, is right at the forefront of this shameful reality. Politicians, bureaucrats, public sector employees — it's this unholy trinity that robs the country of billions of dollars every year. Changing the colour of currency notes cannot rid us of this.

While it's not true that there is no corruption in the private sector, the existence of checks and balances, and vigilant managements, often make it more difficult to pull a fraud off. No matter, 70 per cent of India's banking system is still in the public sector, big enough to accommodate all our crooks. Indian businessmen are smart, they have been quick to latch on to this. The first door is often through bank employees themselves, if that is not enough there are powerful bureaucrats to exert the required pressure, with politicians joining the party for the really meaty deals. What chance does any honest PSU banker have? The choice is between accepting a cut or having to look the other way. With the scale of the problem now out in the open, it is ridiculous to suggest that this is the handiwork of only a handful of unscrupulous employees, with the rest being pure as driven snow. That is just being in denial.

In the light of the scam at PNB, the government's recent bail out package of over Rs 2 lakh crore to PSU banks seems like a cruel joke. How can these banks, crooked at worst and incompetent at best, be given such vast amounts of public money without first putting in systems to ensure that it will not be frittered away like this? The truth is that the Indian banking sector now needs its 1991 moment. Indradhanush coloured bandaids won't work any longer.

Corruption cannot be rooted out of Indian society with a catchy slogan but every effort should be made to bring public sector banks up to the level of the private sector, if only in terms of prevention of frauds. This will break a crucial link in the chain and make it tougher to pull off large scale scams. The key is people. If we can find a sum of Rs 2 lakh crore to gift these banks, can we not find a thousand crores in annual compensation to revamp the top managements, asset liability committees and boards of the PSU banks? With this talent from the private sector will come systems that cannot be bent so easily to take money out.

The mandate of these new managements should be to clean up the mess swiftly and move towards consolidation within the sector. We need only five or six PSU banks and eventually

market forces will ensure that their share is whittled down to less than half of the sector. A process of virtual de-nationalisation of PSU banks, at least at the operating level, has to be the first step. Given the track record of our bureaucrats and politicians, there is almost a conflict of interest in government ownership of banks. The RBI is very careful of handing bank licences to industrial groups, should the government be immune to such scrutiny?

While it is true that under UPA-2, the art of fraud had scaled great heights, scams would abound under any political regime in our country. Our prime minister's chest thumping about having successfully rooted out corruption seems somewhat premature, in the light of the recent scam. It is not enough to say that he or his cabinet are not corrupt.

Some responsibility for what happens under his watch, good or bad, must accrue to him. That is as true of 2002 as it is of 2018. The scale of our banking problem is just too monstrous, Modi cannot afford to remain nirav (silent) about it.

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