A deeper malady: on PNB fraud case

Barely days after news of the **11,500 crore fraud at Punjab National Bank broke**, another but very different scam of a 3,695 crore wilful loan default has surfaced. The Central Bureau of Investigation has registered a case against three directors of a Kanpur-based company, and others including unknown bank officials, on allegations of cheating a consortium of banks by siphoning off loans disbursed to the company. If the two cases must be compared, the similarities lie in the breakdown in internal control mechanisms and in the supervisory failure at the banks. **In the case of Kanpur-based Rotomac Global**, it had availed credit limits from a consortium of seven public sector banks. Given that the facility was made available from 2008 (in the case of Bank of Baroda, which filed the complaint with the CBI), and was used for a range of seemingly unrelated transactions including the import of gems and jewellery and the export of wheat, it is especially surprising that it took such a long time for this diversion of funds to surface as a criminal complaint. It is one thing for individual bank officials to have been complicit in the commission of frauds as has been claimed in the PNB case but quite another for supervisory cadre and risk detection and management systems to have delayed taking remedial action as they did in the Rotomac case. It took too long for the criminal complaints to be filed against the defaulters. On Bank of Baroda’s website Rotomac was listed as its top defaulter almost a year ago; the account had been classified as an NPA in 2015.

Now, Nirav Modi says PNB's overzealousness has shut the doors on his ability to clear dues

In the case of the Punjab National Bank fraud, letters of undertaking were issued bypassing the bank’s reporting system; the three-tier audit failed to detect the malfeasance. In contrast, BoB was not oblivious of the Rotomac default and took unconscionably long to act. It is important to determine why the Reserve Bank of India, which is vested with keeping an eye on bank books, was unable to take prompt corrective action in this case. Rather than routinely reiterate the importance of strengthening corporate governance in public sector banks and promising to infuse greater professionalism, transparency and accountability, it is time the Centre, the major shareholder in these institutions, takes serious steps to translate this intent into action. Any improvement in the **functioning of the PSBs** cannot be undertaken without empowering bank managements and securing their independence from political interference while enforcing strict accountability for lapses. To restore the depositor’s faith in the banking system, the government, the RBI and the judiciary must ensure that prompt and salutary action is taken. The economic cost of doing otherwise is too painful to imagine.

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