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AIBEA condemns ASSOCHAM's demand to privatise banks

Hyderabad, Feb 19, UNITED NEWS OF INDIA

All India Bank Employees' Association (AIBEA) on Monday condemned the demand of ASSOCHAM to privatise banks.

In a statement, AIBEA General Secretary C H Venkatachalam said, "Let ASSOCHAM advise their members to repay the bank loans and should condemn Billionaire Jewellery designer Nirav Modi for his cheating the banks."

"It is very strange and interesting that the Associated Chambers of Commerce and Industry of India, the mouthpiece of the industrialists and business houses has suggested privatization of banks in view of the recent fraud in PNB.

They have conveniently forgotten the track record of private banks in our country. If private banks are really efficient, why these banks were closed down and merged with others. Most of these banks were merged with public sector banks. PSBs have become the Neelakana Mahadev to swallow the poison of failure of many private banks and it is funny that Assocham is asking PSBs to be privatized now.

We understand their greed but they cannot claim that private banks are more efficient", he added.

Mr Venkatachalam also added, "Take the alarmingly increasing bad loans in banks. **Who are the delinquents and who are the defaulters? Are all of them not private companies, industrialists and corporate houses ?** 12 cases of NPAs have been referred to NCLT for insolvency and bankruptcy proceedings involving Rs. 253,000 crore. Who are they? Are all of them not top private corporate borrowers. Why they did not repay the loans? Is it their efficiency? Should banks be privatized and handed over to these people?

In the PNB fraud, no doubt there is an unpardonable sin on part of those officials who have gone out of the way to favour Nirav Modi. But who has tempted them and influenced them ? Is it not private corporate giant Nirav Modi ?"

Take any major fraud in our country. One will see the hand of private corporates in it, the AIBEA General Secretary remarked.

"Let ASSOCHAM not forget that bulk of the loans given by public sector banks are to private corporate houses. **If public sector banks are not efficient, why do they avail these loans from PSBs and why have not taken such loans from private banks. Devil should not quote scriptures**.

We feel to advice Assocham to ask the private sector corporate defaulters to repay the bank loans to the PSBs and condemn NIMO for the fraud he has committed on PNB", he said.

AIBEA demands probe into NIMOnia ailment

In a statement, AIBEA General Secretary C H Venkatachalam also demanded a probe to get Banks rid of 'NIMO'nia ailments in future. The government should keep off PNB Top management from the Bank until fraud probe is completed, he said.

"**We demand extradition of Billionaire Jewellery designer Nirav Modi and his associates and to be brought to India to face the trial**," Mr Venkatachalam said.

He said, at a time when Banks are facing the problem of huge irrecoverable bad loans and getting into losses due to provisions to be made from the profits earned, the PNB – NIMO fraud has a huge shock exposing the increasing trend of corporate loot of banks and thus, the people's money.

He said attempts are being made to dilute the magnitude of the fraud as ''one bank one branch two employees fraud''. Such huge frauds cannot be committed in a simple way that a branch official would give LoU for Rs 11,400 crore in a period of 6 or 7 years without no one knowing about it. No doubt there has been serious complicity of the branch official.

But it is naive to believe that no one else is involved in this racket. Atleast it cannot happened without the knowledge of Nirav modi in whose favour these LoUs have been given. The fraud has raised number of questions on technology issues, supervision, monitoring, audit, internal control, etc. besides role of RBI in the whole episode.

The Top Union leader said how is it that the RBI which carries out a regular audit of the banks, not even smell the fraud, despite the number of years and the volume of money involved? Was the software SWIFT that was used for the fraud approved by the RBI or not for the banking sector? If not, why did the RBI not examine this thoroughly and evaluate the risk? The famous Harshad Mehta scam was because of the so called "innovative" measure of banking receipts that landed the banking sector in deep crisis.

The Nirav Modi fraud has exploited the new instrument Letters of Undertaking. Is the RBI going to do something about this?, the AIBEA General Secretary questioned.

Mr Venkatachalam said, In all probability the RBI will disown LoUs as it had the bankers receipts. If so why did not the RBI question the banks about these guarantees, examine the risks, and create the necessary firewalls to make taxpayers money secure?

Clearly the RBI has failed miserably to fulfill its role as a regulator of a vulnerable banking sector. Why is the Governor silent? Is it this case that now a 'delinquent employee' can help in a fraud of over Rs 11,000 crore without being detected? If so isn't the RBI admitting a complete collapse of the banking sector, where instead of being a regulator it's inefficiency and apathy makes it a risk to the country.

He said, why that branch official was kept in the same branch/department for so many years contrary to rules. What is the explanation of higher controlling offices. What about Banks Nostro account, is there no control on the entries in this account. Or in what manner is fraud has been perpetuated.

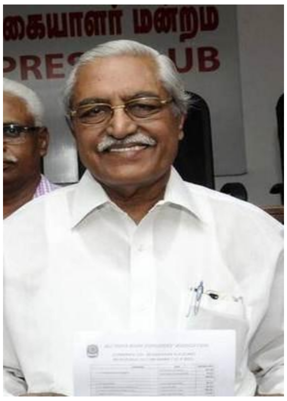
When Nirav Mody's other loans are sanctioned and renewed, why his huge business volume, import bill business, etc. were overlooked. Is it that any employee can issue a LoU and advice the foreign correspondents by SWIFT without anyone's knowledge. If so, is it banking at all?

Does the top management believe that only some local official is involved and top management has no accountability. Mr Venkatachalam said by suspending only lower level branch staff, do they want to extricate themselves from the whole affair. What is sauce for the goose must be for the gander too.

While we (AIBEA) do not support the wrong-doers at the lower level, the impression is given that only the lower level officials and staff are responsible. Why such a haste and hurry to suspend them. **It will be prudent for the Government to step in and keep out the entire top management and higher officials from the Bank until the probe is completed and accountability is fixed.** This is the general expectation of the rank and file employees and officers at the lower level in all the Banks.

The AIBEA General Secretary said ''It is very strange that EDs, MDs, CEOs, Chairman, Directors of the Banks are not covered by any Disciplinary and Conduct Regulations though they take very vital decisions. They are also to be covered by same set of rules like other officers of the Banks. The Government should look into this aspect also, he demanded.

PNB fraud: AIBEA wants govt to step in and remove top management till completion of probe



A file photo of CH Venkatachalam, AIBEA General Secretary

The bank union raises serious questions about the functioning of the RBI in its letter

NEW DELHI, FEB 19 BUSINESSLINE

The government should step into the ongoing PNB fraud case and keep out top management and officials until the probe is complete and accountability fixed, bank union AIBEA demanded today. The impression is that only lower level officials were involved, it said.

“What is sauce for the goose must be for the gander too. While we do not support the wrong-doers at the lower level, the impression is given that only the lower level officials and staff are responsible. Why such a haste and hurry to suspend them?” the All India Bank Employees’ Association (AIBEA) said in a strongly-worded letter issued today.

“It will be prudent for the government to step in and keep out the entire top management and higher officials from the bank until the probe is completed and accountability is fixed,” it said.

Diluting the magnitude?

Attempts are being made to dilute the magnitude of the fraud as one-bank-one-branch-two-employees fraud. Such huge frauds cannot be committed in a simple way that a branch official would give LoU for Rs 11,400 crore in a period of 6 or 7 years without any one knowing about it, AIBEA General Secretary CH Venkatachalam said.

“No doubt there has been serious complicity of the branch official. But it is naive to believe that no one else is involved in this racket. At least it cannot happened without the knowledge of Nirav Modi in whose favour these LoUs have been given,” he added.

Role of RBI

AIBEA said fraud has raised a number of questions on technology issues, supervision, monitoring, audit and internal control besides role of RBI in the whole episode. “How is it that the RBI which carries out regular audits of banks, didn’t even smell the fraud, despite the number of years and the volume of money involved?,” it asked.

“Clearly the RBI has failed miserably to fulfil its role as a regulator of a vulnerable banking sector. Why is the governor silent? Is it his case that now a delinquent employee can help in a fraud of over Rs 11,000 crore without being detected? If so, isn't the RBI admitting a complete collapse of the banking sector, where instead of being a regulator its inefficiency and apathy makes it a risk to the country," AIBEA said. It also questioned some officials' retention at the same branch and department for so many years.

The anatomy of the PNB fraud

Clearly, the control system in Punjab National Bank, India's second largest government-owned bank by assets, has gone to the dogs

Tamal Bandyopadhyay Mon, Feb 19 2018. LIVEMINT

PNB's Gokulnath Shetty (in grey hair) will be compared with R. Sitaraman, a small-time officer in SBI's treasury department in Mumbai who handheld Harshad Mehta into the coffers of India's largest lender leading to the Rs4,999 crore 1992 stock market scam.

Just two employees of a bank branch can empty its cash vault. In most public sector bank branches in India, a pair of keys of the strong room is kept with the cash officer and the accountant in the branch; if both collude, they can empty the vault.

To topple a bank, at least three persons need to conspire—the so called maker, checker and verifier or authorizer of SWIFT messages. Banks across the world use SWIFT, or Society for Worldwide Interbank Financial Telecommunications, a messaging network for securely transmitting information and instructions for all financial transactions through a standardized system of codes. The maker keys in the message in the system, the checker checks it and, at the third stage, the verifier transmits it after he is convinced of its genuineness.

Even three persons aren't enough to topple a bank. This is because after the SWIFT message is sent to an overseas bank for a financial transaction, the bank which receives it and transfers the money (to the overseas Nostro bank account of the exporter or the importer), it sends a SWIFT message back confirming the creation of the loan. The person who receives this message is a different person; not any of the three—maker, checker or verifier. The message comes to a secured room and gets printed on a separate printer; everybody does not have access to this secured room.

If indeed Gokulnath Shetty, a retired deputy manager of Punjab National Bank's (PNB's) foreign exchange department at the Brady House in Fort, Mumbai, is the only villain in the $1.77 billion (around Rs11,397 crore today) fraud, then he had played the role of all four—maker, checker, verifier and the receiver of the message confirming the creation of a loan. Clearly, the control system in India's second largest government-owned bank by assets has gone to the dogs. And, if this is not the case, there must be many more executives at different levels across various departments of PNB who perpetrated the fraud for more than seven years.

Stock market filings

What exactly happened? On 5 February, PNB informed India's stock exchanges of a Rs280 crore fraud. The bank followed it up on 14 February, informing the stock exchanges once again that it had discovered fraudulent transactions, dating back to 2011, "for the benefit of a few select account holders". The note did not name designer jeweller Nirav Modi, but media got to know that some of the bank's employees at a Mumbai branch allegedly issued letters of undertakings, or LoUs, to Modi's companies, which enabled them to raise money from international branches of other Indian banks in the form of buyer's credit. The PNB note said "these transactions are contingent in nature and liability arising out of these on the bank shall be decided based on the law and genuineness of underlying transactions." The money involved is "$1,771.69 million".

The very next day, in yet another detailed clarification to the stock exchanges, PNB said that when Modi's employees approached the Mumbai branch on 16 January seeking an LoU, the bank asked for 100% cash margin; but they contested this, claiming the group had been enjoying the facility for years without any cash margin. That led to the discovery of the fraud—issuances of LoUs through SWIFT without any official sanction.

By 25 January, the first devolvement of a set of LoUs occurred, leading to $44.2 million liability for PNB. Subsequently, more LoUs started devolving on PNB. Apart from Modi group firms, the involvement of Gitanjali group firms of Mehul Choksi (Modi's uncle) surfaced. By 12 February, PNB discovered some Rs11,304.02 crore of unauthorized issuances of LoUs and other trade finance instruments to the Modi firms, Gitanjali group companies and Chandri Paper and Allied Products Pvt. Ltd, owned by Aditya Ishwardas Rasiwasia and Ishwardas Agarwal.

What is an LoU?

What is an LoU? It's an explicit undertaking offered by a bank to another bank on behalf of its customer, who is importing goods from overseas. Backed by the LoU, the overseas bank gives the so-called buyer's credit to the importer.

The earlier avatar of LoU was LoC, or a letter of comfort—issued by the importer's bank for a buyer's credit (to the extent of the value of the invoice for goods being imported). In the LoC regime, the importer was supposed to pay to the overseas bank and, in case of a default by the importer in paying the debt, the LoC issuing bank would step in. In other words, unlike LoC, LoU is unambiguous on the issuing bank's responsibility—it's nothing but a direct exposure of the importer's bank to the overseas banks which are extending the buyer's credit.

Buyer's credit is a short-term credit available to a buyer (importer) from overseas lenders such as banks and other financial institutions for goods being imported. The overseas banks usually lend the importer on the basis of an LoU issued by the importer's bank. The bank which gives the LoU earns a fee, typically 0.2-0.25% of the amount; the bank which gives the buyer's credit earns interest (Libor, or London Interbank offered rate, plus a spread, depending on the profile of the customer); and the importer gets a cheap line of foreign credit.

The maturity of an LoU could be between 30 days and one year, depending on the operating cycle of the importer. For instance, a diamond merchant may need two-to-three months' time to cut, polish and export the raw diamond imported from South Africa, while an entity that imports crude palm oil from Malaysia may need less time for converting it to RBD palm oil through degumming, bleaching and deodourizing. In Reserve Bank of India's (RBI's) lexicon, such facilities are short-term external commercial borrowing and they cannot be rolled over. The idea behind having such a scheme is to enable an importer to access low-cost foreign currency funds overseas.

Under RBI guidelines, buyer's credit for import of platinum, palladium, rhodium and silver and rough, cut and polished diamonds, precious and semi-precious stones should not exceed 90 days from the date of shipment. The list, however, does not include pearls. I am not aware what exactly Modi's companies were importing. Media reports suggest Modi was importing cultured pearls.

The beginning

How did the fraud happen? Let me try to reconstruct the story from my conversations with bankers, central bankers, foreign exchange dealers and trade finance experts.

Modi wanted to import pearls and diamonds, design exquisite world-class jewellery and sell them. He needed money to buy the pearls and diamonds. He did not want to opt for a rupee loan, and rightly so as it is expensive and there is foreign currency risk. He wanted foreign currency loan. That's cheap. Besides, he had a natural hedge against currency fluctuations as he was earning in foreign currency by exporting jewellery.

Till now, the story is fine. The twist comes when he decided to take bank loans without having any loan account and other attendant paraphernalia such as sanctioned limits, collaterals, etc. To circumvent all these, he arranged a guarantee from PNB in the form of LoU for cheap short-term foreign currency loans meant for importers. Ideally, the LoU-issuing bank asks for a margin, which could be as much as 100% or even more. Why would an importer offer such a high margin? It would, because this is typically kept with the LoU-issuing bank in the form of a fixed deposit, the return from which is far higher than the cost of the foreign currency loan. Simply put, an importer can arbitrage between high domestic deposit rates and low foreign credit rate. For some reason, PNB, it seems, did not ask for margin. And, this is the beginning of the $1.77 billion fraud that shook the Indian banking system last week.

MT 799

So, one fine morning in 2011, a SWIFT message (code: MT 799) was sent from PNB's Mumbai branch to some of the Indian banks overseas offering LoUs, committing to pay them the principal plus interest on behalf of Modi companies. Without batting an eyelid, a few Indian banks extended buyer's credit. We presume the money flowed into PNB's Nostro account. A bank keeps a Nostro account in foreign currency in another bank overseas for use of foreign exchange and trade transactions.

PNB debited the money by paying to the exporter, the entity which was selling diamonds to Modi. Theoretically, Modi should have sold the polished diamonds and jewellery and paid back PNB on every due date for each LoU, and PNB would have paid back the banks overseas for their buyer's credit. Had this been the case, there would not have been any fraud. What might have happened (I don't know for sure at this point) is Modi never paid back PNB! He used the money for other purposes—creating assets overseas or playing in the market or probably buying books from Amazon and enjoying a good life, reading poetry and listening to music.

How could he and others continue this facility for seven years without paying any money? Well, instead of paying his own money, he probably asked PNB (read Gokulnath Shetty) to open another LoU, which could cover the principal plus interest of the previous LoU. Backed by new LoUs, he would get fresh and higher buyer's credit, which would enable him to clear the previous loans and the chain continued.

Kite flying

In banking parlance, such a practice is called kiting or kite flying. When people use one or more credit cards to withdraw cash at an ATM and pay dues on another credit card, they do the same thing. This way, Modi (and Choksi) may have spawned hundreds of LoUs (investigative agencies peg the figure at 293) and PNB's liability to the issuers of buyer's credit ballooned. It's a sort of ponzi scheme which chit funds run—they continue to pay high interest rates to depositors till the flow of new money continues and once the flow stops, their operations come to a halt. Here, too, Modi kept on opening LoUs to repay old facilities; the game came to a sudden halt when Shetty's successor at PNB's Fort branch refused to open a new LoU without a margin.

Of course, at this point, this is a conjecture. If this has not happened, we need to believe that Modi was doing good business till January this year when he had no money to pay back PNB.

Shetty, who had been at PNB's foreign exchange department in Mumbai since 31 March 2010, and a few of his colleagues were using SWIFT messages for the LoUs and none else in the bank seemed to be aware of this. This is because such transactions never showed up in the core banking system of the bank. When Shetty retired in 2017 and his successor refused to entertain Modi without any margin, Modi claimed that he had all along been enjoying the facility. However, the gentleman could not trace the past transactions in the system, and the cat came out of the bag.

There would not have been any problem if PNB had securities or other collaterals to back its LoUs as the bank would have sold the securities /collaterals and paid the banks overseas. This has not happened because Modi never enjoyed any credit facility. He probably just had a current account with the bank, and Shetty and company were entertaining him.

Removing paper trail

The question is how Shetty could remain undetected so long. Most, including PNB, say he removed the paper trail of messages. The unauthorized messages could not be detected as the SWIFT system in PNB is not integrated with its core banking solution or CBS—a software for recording transactions, storing customer information, calculating interest and completing the process of passing entries in a single database. In fact, this is the case with most public sector banks in India which roughly have 70% market share of assets. As the system is stand-alone, no confirmation from the CBS or any other system that originates the transaction is received.

Before SWIFT, Telex was the only means of message confirmation for global funds transfer. It was hampered by low speed and security concerns. Telex senders had to describe every transaction in sentences which were then interpreted and executed by the receiver. This led to many human errors. SWIFT system was formed in 1974 when seven major international banks formed a cooperative society to operate a global network to transfer financial messages in a secure and timely manner. For any cross-border financial transaction, SWIFT is the only secured messaging platform available and acceptable to all banks worldwide.

Those who understand banking technology well, including a former deputy governor of RBI, say integrating SWIFT with CBS is no big deal. Of course, it has a cost but that’s definitely smaller than a $1.77 billion fraud. In fact, some of the Indian private banks have already integrated their CBS with SWIFT. Over the weekend, I checked with Yes Bank Ltd, Axis Bank Ltd, HDFC Bank Ltd and ICICI Bank Ltd and in all four, SWIFT is an integral part of CBS. In State Bank of India, too, the system is integrated. Many Indian banks also run centralized trade finance centres. Integration of SWIFT with CBS will mitigate risks to a large extent even though it may not eliminate risks entirely.

Key questions

It will take a while for the dust to settle on this case, but we need to look for answers to a few questions without losing time:

How long will most public sector banks refuse to integrate SWIFT with their CBS? Considering the vulnerability of a stand-alone SWIFT, we should be happy that there aren't too many frauds happening in trade finance.

Indian banks overseas offered buyer's credit by remitting funds through inter-bank transfer in the Nostro account of PNB. How could PNB's CBS not catch such fund transfers?

As a standard banking practice, Nostro reconciliation for each entry (credit and debit) is done by the treasury back office of a bank with mirror entry in CBS. Why were funds pertaining to the buyer's credit loan routed through PNB's Nostro account not reconciled for seven years? The SWIFT entries might have been generated without the knowledge of the senior management, but how could the fund entries—payments of principal and interest for seven years—in the Nostro account in PNB remain undetected?

Overseas lenders sent loan confirmation to PNB via authenticated SWIFT, post disbursement of buyer's credit. On receipt of such notification from overseas lenders, why was reconciliation not done with CBS to cross-check the loan details and book the actual liability for principal and interest?

Modi continued to pay PNB till January 2018 and the lenders had received these funds from PNB. What was the basis of such repayments for PNB if buyer's credit did not exist in their CBS? How were these Nostro entries reconciled?

Finally, RBI is very particular in keeping a tab on all transactions in banks' Nostro accounts and it always insists on timely reconciliation of such accounts. How could the rapid rise in transactions in PNB's Nostro account escape the regulator's eye?

I understand RBI sent a note to all banks in the first week of February, asking them to reconcile all Nostro accounts.

Can a deputy manager alone create a $1.77 billion potential hole in a large bank's balance sheet? For PNB, it has been a multi-layered failure, accompanied by complicity of its executives at different levels.

Concurrent auditors in bank branches are assigned the job of transaction verification. There could be delay, but I wonder how the concurrent auditors failed in tracing out the full chain. Ditto about the statutory auditors. They are supposed to check customer-wise transaction register, along with sanctions /approvals for authenticating the true state of the books of accounts and establish the amount of bank's contingent liabilities on the date of book closure. Similarly, the internal auditors are expected to verify client files, outstanding transactions, approvals and transaction registers. Besides, RBI auditors conduct the annual financial review.

For the record, PNB's Shetty will always be compared with R. Sitaraman, a small-time officer in State Bank of India's treasury department in Mumbai who handheld Harshad Mehta into the coffers of India's largest lender leading to the Rs4,999 crore 1992 stock market scam.

Post script

The PNB episode will probably provoke the Indian banking system to take a close look at funding the bullion sector, not known for transparency. Many firms, I am told, take cheap buyer's credit and use the money to earn interest keeping it overseas in the form of deposits with banks. Many a time, the quality of import and the genuineness of the bills are questionable. Most importantly, there's often an incestuous relationship between the importers and the exporters—they come from the same stable. This could potentially lead to money laundering.

The Indian banking system's exposure to the gems and jewellery segment was to the tune of Rs69,000 crore in December 2017, less than 1% of the Rs82 trillion total bank credit.

Tamal Bandyopadhyay, consulting editor at Mint

Eyes wide shut: The $1.8 billion PNB fraud that went unnoticed

Punjab National Bank is still probing how fraudulent transactions go undetected for so long. The accounts given by current and former executives suggest an answer as simple as it is alarming

Mon, Feb 19 2018. **Livemint**

New Delhi/Mumbai: The Punjab National Bank branch in south Mumbai sits just down the road from both the Bombay Stock Exchange and the Reserve Bank of India, at a physical centre of one of the world's fastest growing major economies.

The branch, clad in a stately colonial edifice, is now also at the heart of a fraud case linked to billionaire jeweller Nirav Modi that has shaken confidence in a state banking sector that accounts for some 70% of India's banking assets.

It was here, according to accounts from Punjab National Bank executives and government investigators, that a lone middle-aged manager, later aided by his young subordinate, engineered fraudulent transactions totalling about $1.8 billion from 2011 to 2017.

The bank says it is still investigating how they were able to do so and go undetected for so long. The accounts given by current and former executives who spoke to *Reuters* suggest an answer as simple as it is alarming: no one was paying attention.

The still unravelling story of how the fraud happened—which includes the alleged misuse of the SWIFT interbank messaging system and incomplete ledger entries—points to a breakdown in checks and balances, and standard banking practices, they said.

The apparent failure of anyone to notice the largest fraud in Indian banking history until this January reveals a "rot" in the state financial sector that goes beyond one lender, said Santosh Trivedi, who spent nearly four decades at Punjab National Bank before retiring in 2016 as a senior manager of audit and inspection in the New Delhi head office.

"Unless this rot is controlled at this stage, to the satisfaction of the international community, it is dangerous for the Indian system," Trivedi said.

Jeweller to the stars

Last month, Punjab National Bank, known as PNB, filed an initial criminal complaint with the country's Central Bureau of Investigation (CBI) accusing celebrity jeweller Nirav Modi and others of defrauding the bank and causing it a loss of Rs280 crore (more than $43 million).

The allegations against a man whose diamond creations have draped Hollywood stars such as Kate Winslet and Dakota Johnson generated a flurry of coverage across India's TV screens and newspapers. Modi has not publicly commented on the case. He and his family left the country in earlier January, according to Indian officials, and a call on Sunday to a corporate spokesperson who has handled media for Modi in the past went unanswered. No charges have been filed against him.

But as more details surfaced about what is alleged to have happened at the state-run bank, which was founded in 1894, the stakes have gotten higher.

A review of bank and government documents related to the case—and interviews with current and former PNB executives, bank auditors and experts—points to a lack of accountability and standards in the country's public banking system.

As of last September, those banks held about 87% of the Indian banking system's Rs9.46 trillion (about $147 billion) of soured loans that are non-performing, restructured or rolled over.

A preliminary investigation by the nation's tax authority said of the PNB fraud that "the hit Indian banks would take in the end may well exceed" $3 billion, according to an internal note seen by *Reuters*.

"Yes, there is a problem. We have recognised it," bank chief executive officer Sunil Mehta said during an investor call on Friday. "We are in the process of fixing it up. We'll see wherever the loopholes are there. The people-related risk, we are going to mitigate."

But despite that promise of action, one current senior executive at the bank’s headquarters in New Delhi said further problems could not be ruled out.

“In Indian banks, we don’t work under ideal situation,” the executive, who declined to be identified, said during an interview at his office. “We are in the business of risk, you can’t say there won’t be road accidents.”

Fraudulent guarantees

According to court documents filed on Saturday by the CBI, branch deputy manager Gokulnath Shetty issued a series of fraudulent Letters of Undertaking—essentially guarantees sent to other banks so that they would provide loans to a customer, in this case a group of Indian jewellery companies.

These letters were sent to overseas branches of banks, thought to be almost all Indian, that would then lend money to the jewellery firms.

Shetty did so using the bank’s SWIFT system to log in with passwords that allowed him, and in at least some instances a more junior official, to serve as both the person who sent messages and as the person who reviewed them for approval, according to court documents and interviews with bank executives.

“The involvement and connivance of more staff members and outsiders at this stage cannot be ruled out,” said a CBI document submitted to the court in Mumbai.

Shetty is now in custody and he has not publicly responded to the allegations. Calls to a cell phone listed for his wife on court documents were not answered.

Asked about the password sharing, the senior Punjab National Bank executive said it was not best practice but in the everyday bustle of Indian banks it happens. “When you are flooded with customers in the morning, with 101 demands, you look for shortcuts,” he said. “You do somebody else’s work, somebody else does your work. You are not working in an ideal situation.”

A second senior executive at the bank’s headquarters, who also asked that his name not be used, echoed that sentiment.

After entering the transactions on SWIFT, the CBI documents said, Shetty—who worked at the same branch from 2010 to 2017 despite normal bank practices of regular rotations—did not record them on the bank’s internal system.

Because PNB’s internal software system was not linked with SWIFT, employees were expected to manually log SWIFT activity. If that was not done, the transactions did not show up on the bank’s books.

A SWIFT spokeswoman said in a statement last week that the company does not comment on individual customers.

All together, there were at least 150 such fraudulent Letters of Undertaking during a seven-year period, according to a CBI official who spoke on the condition of anonymity.

In addition to detaining Shetty and the junior employee, the CBI has arrested a man who it described in court documents as both being “aware about the modus operandi of the entire scams” and serving as a director in “15 to 16 companies of Nirav Modi Group”.

An older brother of the man, Hemant Bhatt, said outside a courtroom on Saturday that he was innocent and the allegations were the result of a “media trial”. The brother did not give his name.

An uncle of the junior bank employee, Manoj Kharat, told a *Reuters* reporter outside the court that his nephew was “just following orders of superiors” and added “he wasn’t aware of what he is doing”.

All three are to be held in custody until 3 March. No charges have so far been laid against them.

Financial hit

A 12 February note seen by *Reuters*, sent from PNB to other banks and marked “confidential”, said: “None of the transactions were routed through the CBS system”—the bank’s internal network—“thus avoiding early detection of fraudulent activity.”

The Reserve Bank of India did not respond to a request for comment about whether it had earlier detected any anomalies in Punjab National Bank’s operations or whether it would take additional action in auditing banks.

In a statement late on Friday the central bank called the fraud at PNB “a case of operational risk arising on account of delinquent behaviour by one or more employees of the bank and failure of internal controls”. It also said the central bank “has already undertaken a supervisory assessment of control systems in PNB and will take appropriate supervisory action”.

The CBI paperwork says the fraudulent Letters of Undertaking are likely to add up to “the vicinity of” Rs6,000 crore, or more than $930 million. Bank executives say the amount tallied by working back through internal records is $1.77 billion.

With assets of about $120 billion as of December, according to bank filings, PNB will be able to cover any associated losses, though it is still a huge hit for a bank whose stock market value was only $6.1 billion before it revealed details of the alleged fraud last week. It has since seen $1.4 billion wiped off that market capitalisation.

The mechanics of how the fraud happened, and what it says about the underlying industry culture, are worrying, said Abizer Diwanji, national leader for financial services in India at accounting firm Ernst & Young.

“Checks and balances are there in public banks as well but they are not followed earnestly,” said Diwanji, who has tracked India’s financial services industry for more than two decades. “This is where the discipline, the culture is not there. I always believe that we don’t have the culture to manage risks, even operational risks. PNB is not an outlier in this.”

To control such risks, most private sector banks require branches to route SWIFT messages through their central offices, Diwanji said. They also usually integrate their own software systems and SWIFT, meaning that activity such as a Letter of Undertaking being sent would get automatically recorded.

Neither is the case at PNB or most state-run banks in India, Diwanji said.

Representatives of two of the external audit firms listed on PNB’s annual report for the 2016-17 fiscal year said they could not have known what happened.

“It was off-books, so auditors will not be in a position to detect it,” said Sudesh Punhani, a partner at Chhajed & Doshi.

Asked whether the bank’s failure to integrate its software system and SWIFT was a cause of concern, Neeraj Golas, a partner at R. Devendra Kumar & Associates, also an external auditor of the bank, said: “True, true - we have to really get into it and understand what all these things are.” **Reuters**

Who is Nirav Modi, the man linked to $1.77 billion PNB fraud?

In recent times, life for 47-year-old billionaire Nirav Modi, the person at the centre of the $1.77 billion fraud at Punjab National Bank, has been anything but sunny

Sapna Agarwal Fri, Feb 16 2018. Mumbai: LIVE MINT

Nirav Modi's tryst with jewellery design happened by chance. It started with the designing of a pair of earrings for a friend and that too after a lot of persuasion. This was in 2009. There has been no looking back since.

Nirav Modi, the man at the centre of the alleged $1.77 billion banking fraud at Punjab National Bank (PNB), is a regular on the pages of some of the world's leading international financial dailies and fashion magazines, advertising for stores on glamorous high streets. There's 31 Old Bond Street in London and 727 Madison Avenue in New York. In Mumbai, his store will soon replace the iconic Rhythm House at Colaba which shuttered in 2016.

Billboards with brand ambassador Priyanka Chopra are plastered all across India's commercial capital.

But, for some years now, life for the 47-year-old billionaire has been anything but glamorous. Since 2014, a year after he first appeared on the Forbes billionaire list, Modi has been under the scanner of law enforcement agencies—the Central Bureau of Investigation (CBI) and Enforcement Directorate (ED)—as well as the tax department for alleged illegal transactions and frauds.

In 2014, the Directorate of Revenue Intelligence (DRI) called him out for alleged diversion of imported, duty-free, cut and polished diamonds and pearls to the domestic market. The DRI called it a violation of import-export norms. Currently, he is the focus of a CBI inquiry for allegedly cheating PNB of Rs280 crore. The ED, meanwhile, has registered a case against him for money laundering, and is conducting multiple searches on properties owned by him.

Modi did not respond to emails seeking comment.

Born in India and raised in the Belgian city Antwerp, the diamond capital of the world, Modi is a third-generation diamantaire.

Growing up in the thick of the diamond business, dinner table conversations at home would often be about the size and cut of the latest rock the family had acquired. Yet, this was not his first choice of profession. Modi, described as a soft-spoken and unassuming man by those who know him, aspired to be a music conductor.

That explains his love of hi-fi music systems—he would scout the world for the best offerings from top companies like Bang and Olufsen.

Music, though, was not meant to be. He joined the family business of his maternal uncle at Gitanjali Gems Ltd at 19 after dropping out the of University of Pennsylvania's Wharton School. Uncle Mehul Choksi, chairman, Gitanjali Gems, is one of the four accused in the ongoing CBI investigation, although he has denied being associated with any of Modi's companies.

It was his initial nine years at Gitanjali Gems in the 1990s that laid the foundation for Modi's own jewellery business.

According to a caution note sent by PNB to the chiefs of 30 other lenders, Gitanjali Gems group companies used the same methods as the Modi companies to avail guarantee or comfort letters.

On 7 February, Gitanjali Gems informed the stock exchanges that Choksi had no dealings with the Modi firm in the centre of the scams and that he had retired as partner in one of them in 1999.

Modi’s tryst with jewellery design happened by chance, in 2009, when he was persuaded to design a pair of earrings for a friend.

Within a year he went on to become the first Indian to feature on the cover of a Christie’s auction catalogue in 2010 for a Golconda diamond necklace that fetched $3.56 million at its auction in Hong Kong. In October 2012, his Riviere Diamond Necklace was sold for $5.1 million at a Sotheby’s auction in Hong Kong. In 2013, Modi entered the Forbes list of billionaires.

Today, the brand manages to hold its own among rivals like the century-old Van Cleef and Arpels and Richemont SA’s Cartier, and his clients include Hollywood star Kate Winslet who wore diamond creations by the jewellery designer for her red-carpet walk at the 2016 Oscars. In addition, many of India’s biggest business families have been buying diamonds from him for years.

Modi is ranked 1,234 in Forbes’s world’s billionaires list for 2017, and 85 in India. His financial worth is estimated at $1.73 billion through his jewellery design and retail businesses, according to the Forbes website.

The Nirav Modi brand is owned by Firestar Diamond International Pvt. Ltd, a diamond trading and jewellery firm founded by Modi which also owns A Jaffe, another jewellery brand, and produces jewellery for other labels in the US.

The father of three speaks in Gujarati with his wife and children and is committed to nurturing family customs and tradition, he told Mint in an interview in 2016.

His interests include reading—about a dozen global newspapers every day, magazines, literature and poetry. An avid traveller, he appreciates visiting museums, a habit inculcated by his mother, an interior designer.

“I am naturally shy,” he told Mint in 2016.

For all this, his future for now looks clouded and heavy

Winsome rerun in diamond debacle

Jayanta Roy Chowdhury Feb 19, 2018 TELEGRAPH

New Delhi: The parallels between the Nirav Modi-case and Winsome Diamonds - the original diamond headache of banks - are not hard to miss. Both are owned by high-profile diamond merchants who fled the country after credits went sour, while the state-run banks bore the brunt of huge losses.

"After the horse bolted once, bankers should have exercised far greater caution," said Sanjay Bhattacharyya, former managing director of the State Bank of India.

Like Nirav, Winsome's Jatin Mehta had taken standby letters of credit on which he reneged before fleeing. Though the losers in the more than Rs 6,500-crore case were a consortium of banks - the biggest hit was Delhi-based Punjab National Bank.

Both Nirav and Mehta have their roots in Gujarat's Palanpur.

In the early years of this century, Jatin Mehta was the darling of the banking world. He took buyer's credit to purchase gold, turned it around into diamond-studded jewellery and paid back the money. His firms -

Winsome, Su-Raj & Forever Diamonds - enjoyed high credit and their limits kept getting extended.

Indian banks issued standby letters of credit, similar to guarantees, in favour of international bullion banks such as Standard of South Africa, Standard Chartered, London, and Scotiabank, which supplied gold to Mehta's Winsome Group.

By 2012, months before the bubble burst, banks had collectively given Rs 4,366 crore to Winsome Diamonds & Jewellery Ltd, Rs 1,932 crore to Forever Precious Jewellery and Diamond and Rs 283 crore to Su-Raj Diamonds as buyer's credit.

In November 2012, Mehta said he couldn't pay back as his customers - UAE jewellers - were hit by derivatives losses and unable to pay him. Mehta subsequently resigned from his firms and left India in 2016. He is believed to have obtained a citizenship of St Kitts & Nevis.

Bankers kept knocking on Winsome's doors, hoping for a settlement. Ultimately, in 2013, they realised that this was a deal gone sour and declared their outstanding credit as bad loan and declared Mehta a wilful defaulter.

By early 2014, bankers took the case to the CBI, who along with Mumbai police raided Winsome directors and its offices. For three years, the agency investigated the case without making any arrests. Of the banks which took the hit, Punjab National Bank suffered the biggest loss - more than Rs 1,700 crore. Other banks losing money included Central Bank of India (Rs 699.54 crore) and IDBI (Rs 388 crore).

"The two cases are similar in some ways. Both took credit lines without giving any collateral. The difference was that in one case the loans were officially made, in the Nirav- Modi case they were fraudulently given," points out Bhattacharyya.

Analysts say that once bitten, banks should have immediately placed most of their gems and jewellery credit lines on the scanner and checked their exposure to each client and the latter's ability to pay back.

To complicate matters, in 2015, Winsome Group firms filed cases in the Sharjah Federal Court, arguing that its companies had suffered a business loss of $1 billion as the 13 UAE-based jewellery firms which acted as its distributors had defaulted in payments. The Sharjah court ruled in favour of Winsome Diamonds and Forever Precious Jewellery.

On April 5, 2017, the CBI registered six separate cases against Winsome Diamonds and Jewellery Limited, Forever Precious Jewellery and Diamond Limited and their chief promoter Jatin Mehta for allegedly cheating three government banks of Rs 1,530 crore.

In May 2017, the UAE's appellate court upheld the Sharjah court's verdict. The 13 firms then took the case to the UAE's Supreme Court. Neither the CBI nor Indian banks had any role to play in this case and have to just wait it out.

Which way the Nirav Modi case will go will be revealed in the weeks ahead.

However, for now, both Modi and Mehta own firms in India that are unable to pay back to the Indian banks while both are living abroad despite the attempts of agencies to track them.

AIBEA THIS DAY – 19 FEBRUARY	
1996	Delegation from Uzbekistan visits India at our invitation.
1999	Central Dharna at Delhi – 7th Bipartite Demands.

AIBEA THIS DAY – 20 FEBRUARY	
1942	Com. S Dhopeshwarkar, former President, AIBEA (Date of birth)
1954	Annual Conference of Federation of Bank Unions, Bombay.Com. F M Pinto and P K Menon elected as President and General Secretary.
1982	Silver Jubilee of Karnataka Pradesh Bank Employees Federation.
1992	Com. A Sundara Rao, (63) former Assistant Secretary, AIBEA passes away.
2001	Com. Indrajit Gupta veteran Trade Union and CPI leader passes away.
2008	UFBU meets Finance Minister

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