AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bank unions defer March 15 strike

IANS | Chennai 23 2 2018 Business Standard

The United Forum of Bank Unions (UFBU), an umbrella body of nine unions in the Indian banking sector, on Friday decided to postpone their March 15 strike for early finalisation of wage revision, said top leaders of two large banking unions.

"**Owing to the vitiated atmosphere in the banking sector following the Rs 11,300 crore scam/fraud in Punjab National Bank, the unions have decided not to proceed with the March 15 strike,**" C. H. Venkatachalam, General Secretary, **All India Bank Employees' Association** told IANS.

Indian Billionaires' Wealth Equals 15% Of GDP, Poor Becoming Poorer, Says Oxfam Report

In 2017, India had as many as 101 billionaires.

OUTLOOK WEB BUREAU

Inequality in India is on the rise for the last three decades, so much so that the total wealth of Indian billionaires is 15 per cent of the GDP, thanks to the "lopsided" policies of successive governments, Oxfam India said in a report today.

It said the wealthiest in India have cornered a huge part of the wealth created in the country through crony capitalism and inheritance, while people at the bottom are seeing their shares being reduced further.

"These inequalities are the result of package of reforms adopted during the big bang liberalisation of 1991 and the subsequent policies adopted," said Oxfam India CEO Nisha Agrawal.

The report noted that by the latest estimates, the total wealth of Indian billionaires is 15 per cent of the GDP of the country; this has risen from 10 per cent only five years ago.

In 2017, India had as many as 101 billionaires.

The report titled 'The Widening Gaps: India Inequality Report 2018', noted that the country ranks among the most unequal countries in the world on all parameters of income, consumption and wealth and the reason behind this is the "lopsided" policy choices made by successive governments.

"Specific policy choices which favoured capital rather than labour, and favoured skilled rather than unskilled labour, are part of the structure of the growth trajectory in India," the report said.

The report analysed various sources of data and describes how the path of inequality has changed in India-from being stagnant in 1980s, to its increase since 1991, and to its subsequent and continued surge in recent years until 2017.

"What is particularly worrying in India's case is that economic inequality is being added to a society that is already fractured along the lines of caste, religion, region and gender. Apart from being a moral concern, reducing inequality is central to the functioning of India's democracy,"ÂÂ□ said Professor Himanshu, author of the report.

Agrawal further noted that the only way to reverse this trend is to increase tax collection through progressive direct taxation “such as introducing wealth and inheritance taxes"and spending them on health, education and nutrition for the poor, focusing specially on the early childhood development of the poor.

"Only then can one hope to create a more equal opportunity country and spread the benefits of high growth more widely," Agrawal added.

A report released by the international rights group Oxfam before the start of the World Economic Forum in Davos noted that the richest 1 per cent in India cornered 73 per cent of the wealth generated in the country last year.

The survey also showed that the wealth of India's richest 1 per cent increased by over Rs 20.9 trillion during 2017. On the other hand 67 crore Indians comprising the population's poorest half saw their wealth rise by just 1 per cent.

Arun Jaitley faults auditors, management for PNB fraud

Finance Minister says cheaters will be forced to pay up

NEW DELHI, FEBRUARY 20/PTI BUSINESSLINE

Finance Minister Arun Jaitley on Tuesday said the government would make every effort to chase "unethical" businesses to ensure they pay their dues, while stressing that supervisory agencies must introspect and ensure such "stray cases" do not become a pattern.

In his first official reaction since the □11,400-crore fraud by billionaire diamond jeweller Nirav Modi was reported by Punjab National Bank, the Finance Minister also questioned how the bank management and auditors did not detect the scam.

"We now have emerging challenges, which strike at development and growth," Jaitley said at the 41st annual meeting of the ADFIAP, adding that it affects the lending capacity of banks. Noting that the banking system functions based on trust, which is inherent in the lender and creditor relationship, the Minister said that a "not-so-ethical" section of businesses think they do not need to pay back loans.

"Such stray cases throw up important questions," he said, adding that it is incumbent on the state to chase such people to the last possible stage and make sure the country and honest taxpayers are not cheated. Jaitley also said that though state-run lenders have been given authority, the management was expected to use it effectively. "Were they found lacking? Yes," he said.

He also questioned whether internal and external auditors failed to detect the fraud or looked the other way.

"These developments have a direct cost to the country and taxpayers and also have an indirect cost on lending and development finance," he said.

The Minister noted that the government has implemented the Insolvency and Bankruptcy Code and also cleared the bank recapitalisation plan to help state-run lenders battling high non-performing assets (NPAs).

But he pointed out that concerns over the moral issues over bank recapitalisation were also raised as it is the taxpayers who have to pay for the high NPAs.

'RBI Governor should quit after PNB fraud'- AIBEA

Reserve Bank of India (RBI) Governor Urjit Patel should own up moral responsibility for the massive $1.8 billion scam/fraud allegedly committed by diamond retailer Nirav Modi and resign his post, demanded a top banking employees union leader.

"The continued silence of RBI Governor with regard to the scam/fraud in PNB is surprising and astounding. It indicates the deep involvement and failure of RBI in non-monitoring the Nostro account of PNB," C.H.Venkatachalam, General Secretary, **All India Bank Employees' Association (AIBEA)** told IANS.

According to him, the fraud-hit Brady branch of PNB is a Category A foreign exchange bank branch and the RBI failed to monitor it resulting in the massive scam/fraud.

"The RBI Governor should own up moral responsibility for the gross failure and resign," Venkatachalam said.

According to him, the RBI has its nominees on the PNB's Board of Directors. Further the RBI conducts inspections at all bank branches and hence the central bank cannot escape responsibility.

Venkatachalam also demanded revamping of RBI, adding that Prompt Corrective Action should be taken on the central bank.

PNB scam: How a system was gamed

RADHIKA MERWIN BL 22 2 2018

From inter-bank communications to audit processes, all checks and authorisations were compromised in the fraud

And so the hunt begins. A handful of bank officials who perpetrated the fraud at India's second-largest public sector bank — leading to unauthorised issue of Letters of Undertaking (LoUs) to jeweller Nirav Modi's firms — have been brought under the scanner. The Central Vigilance Commission has stepped in and asked Punjab National Bank to name the bank officials involved in the scam and identify senior management officials who could have taken action to prevent this fraud.

The All India Bank Employees' Association, which until now was surprisingly silent on the colossal scam, has finally spoken, albeit on predictable lines. "What is sauce for the goose must be for the gander too," the union body puts in with a punch and asks for keeping out the entire top management and higher officials from the bank until the probe is completed.

In the entire blame game, the murky role of auditors and the RBI in the scam has only found shaky references. While questions have been raised, it is unlikely that the auditors would be held accountable for their failure this time around, too. But the fact that the fraud at PNB spanned for seven years without setting the alarm bells ringing at the numerous audits at banks, raises some hard-hitting questions on the manner in which auditors carry on their affairs.

How did a scam of this proportion happen when swarms of external auditors are scrutinising banks? How did all audits manage to not notice any red flags in the entire modus operandi?

Modus operandi

At the heart of the matter lies the gaming of the SWIFT messaging system. SWIFT, or Society for Worldwide Interbank Financial Telecommunications, is a messaging network for securely transmitting instructions for all financial transactions through a standardised system of codes. Used by more than 11,000 financial institutions worldwide, SWIFT is a secure message carrier — its core role is to provide a secure transmission channel so that Bank A knows that its message to Bank B goes only to Bank B.

Our correspondence with SWIFT reveals that the way banks use SWIFT, and the business processes they have in place to do so, differs from bank to bank. It goes without saying that banks will want to have checks in place before actually sending messages. The processes, checks, balances, authorisations and so forth differ hugely from bank to bank, depending on their size and the scale of their activity.

In the case of PNB, it is evident that the various checks and authorisations (if at all) had been completely compromised. Hence, a SWIFT message was sent from PNB's Mumbai branch to overseas banks offering unauthorised LoUs.

Ideally a bank guarantee, an LoU allows a customer — Nirav Modi here — to raise money from another Indian bank's foreign branch in the form of a short-term credit to pay offshore suppliers in foreign currency. By rolling over of credit, Modi had ensured that subsequent LoUs repay the money due on the earlier LoUs. So, there had been no default until now.

Red flags

But how could such a massive operation have been in existence for several years without raising red flags at auditing? The Guidance Note on Audit of Banks brought out by the Auditing and Assurance Standards Board of the ICAI every year is an important resource which provides detailed guidance on various aspects of bank audits. A look into the buyer's credit and NOSTRO account (which facilitates forex transactions) section of this 674-page document clearly points to the utter failure in the auditing processes of PNB.

The typical flow of transaction of buyer's credit includes the borrower approaching foreign bank (or overseas branches of Indian banks) for availing buyer's credit for payment to be made to the foreign supplier.

The Letter of Credit/Undertaking is issued by Indian bank to the foreign bank through SWIFT message. The foreign bank remits funds to the NOSTRO account of the Indian bank, backed by the LoU.

Hence, the Indian bank remits the funds to foreign supplier through its NOSTRO and on the due date the Indian bank remits the funds (inclusive of interest) to the overseas bank and recovers the similar amount from its customer (Nirav Modi in this case). The flow of operation clearly indicates that a proper audit would have found out these problem areas.

Missing in action

To understand the audit flaws better, let’s take a look at how NOSTRO accounts actually work. The entries of inward and outward remittances have to be recorded in the books of the India bank (a NOSTRO mirror account). Assuming that this did not happen, an audit process, which requires reconciliation of the two accounts, should have thrown up anomalies.

According to the guidance note on bank audits, the auditor has to consider whether a system of periodical reconciliation was in place and whether confirmations from the foreign banks are obtained on a periodic basis, either through physical confirmations, SWIFT messages, emails, etc. None of this appears to have been done, shockingly, for several years.

Banks are subjected to many types of audits. The concurrent branch audit is a real time audit that is done as transactions take place or in the worst case at the end of the day. Sudden surge in surpluses in the NOSTRO account on a day to day basis should have been enough to trigger an enquiry. Why didn’t it?

Banks also invest surpluses in NOSTRO account in money market. How can a bump in treasury income in a particular account not catch the attention of the auditor or even the CFO? The fee that PNB would have earned through such LoUs has apparently also not fallen under the auditors' radar. How did the RBI not audit SWIFT messages or the NOSTRO balances?

The bigger question is what is the real scale of this scam? Have other banks also issued LoUs without collateral or margin money (something few industry players agree is a possibility)?

How many such transactions are waiting to tumble out of the closet, particularly in PSU banks where internal processes and controls have time and again been compromised?

The task for the RBI is clearly a herculean one, scrutinising numerous accounts of banks to unearth such irregularities. But before it does that, it needs to own up for lapses in its own audit practices.

What successful banks do differently, and where PNB failed.

By Hemant Manuj Economic Times

The business of lending is highly process-driven. In the words of Warren Buffett, it must be safe and boringly predictable, even as it generates value for its shareholders.

A bank generates value by carrying out its standard activities in an efficient manner, and its judgemental activities (such as credit choice), to maximise net positive outcomes. These two sets of activities generate revenues for banks, even as they also involve costs and risks.

A successful bank focuses on maximising its revenues and minimising its costs and risks.

KYC: Know Your Charter

The revenues and costs are highly predictable, ex-ante, and highly measurable, ex-post. However, the risks underlying the activities are neither easily predictable nor highly measurable. They can only be estimated — 'modelled' with a certain confidence. The accuracy of the measurement outcomes will depend on the robustness of the parameters of the models.

So, logically, bank managements should, first, design their risk management frameworks that match their desired levels of risk. After that, they must continuously ensure that their activities are in line with their predefined risk appetite. The first lesson to be learnt from the PNB-Nirav Modi case is that banks need to better manage their operational risks: credit, market and operational.

Credit risk (CR) and market risk (MR) are related to potential losses from lending and investment activities respectively. Such losses occur in case of a loan default or in the value of an investment.

Operational risk (OR) indicates a failure in any of the banking systems, processes or people. OR has an impact on a broad range of products and businesses, unlike CR or MR, which affect specific transactions. While all three types of risks influence the net outcome from the transactions made by the banks, the risks evaluated at the transaction level in a bank are CR or MR.

On the other hand, OR is evaluated and monitored at the product or branch or a similar aggregate level. As a result, business managers are behaviourally inclined to take CR and MR more seriously, while often ignoring OR as merely a compliance issue.

It gets worse when the board and senior management of the bank also take a stepmotherly approach to OR, which eventually translates to CR- or MR-related losses. In the PNB case, the process of checking a transaction before disbursing a non-funded loan was not robust enough.

This was an OR lacuna, which translated into a CR-related loss. While there are some exceptions, banks need to change their superficial approach to OR and accord it the same priority as CR and MR.

Second, beyond the banks, various agencies also need to improvise on their attitudes, skills and knowledge of the banking business.

Internal, as well as statutory, auditors must be capable — and willing — to raise a flag on any inadequate process being followed by a bank.

Even if specific transactions are not always detected, the checking of the loan approval process and its issuance is certainly within the expected accountability of the auditors.

Third, there is a lesson for the regulator as well. The Reserve Bank of India (RBI) has done well to issue suitable guidelines on CR, MR and OR, with appropriate emphasis on each of them.

But it also needs to promote better discipline in OR as part of its supervisory activities. The process of reporting Red Flagged Accounts (RFA) needs to be tested on whether a fair balance between type-1and type2 errors is being adopted by the banks in this process.

Fraudian Slip

RBI must urge banks to demonstrate their focus on a sound OR management. One of the suggested steps could be disclosure of the compensation structure across various domains and verticals.

While the decisions on compensation should be entirely left to bank boards and managements, they should serve as a useful data point for inferences by regulators. RBI should also closely look at, and direct the banks on, some of the points listed in the corporate governance report submitted by the Kotak Committee to the Securities and Exchange Board of India (Sebi).

For instance, bank boards must be strengthened with modern and sophisticated risk management expertise. This will help the bank boards to better understand, and act upon, the risks in the banks. Fourth, GoI, as a policymaker, should evaluate the gaps in its policies leading to 'stupid' failures.

While any business is prone to failures, there should be minimal room for failures on account of non-business risks. The ministry of corporate affairs (MCA) must review the reporting disclosure standards of corporates, including banks. But rather than blindly increasing the number of compliances required, the MCA must holistically review the disclosure and compliance framework, to make it intelligent and effective.

This is not the first, or last, time that a fraud has occurred. However, the right lessons and required course corrections in the risk management framework of banks, at a systemic and specific level, must be adopted to minimise future incidents of operational losses.

The writer is associate professor, finance, SP Jain Institute of Management and Research (SPJIMR), Mumbai. Views expressed are

PNB Fraud Case: How Nirav Modi's employees colluded with bank officials to create fake LoU

FIRST POST, Yatish Yadav Feb 22, 2018 **New Delhi:**

For hours on Wednesday, sleuths from the Central Bureau of Investigation (CBI) were frustrated as they were trying to find out how fake Letter of Undertakings (LoUs) and Foreign Letter of Credits (FLCs) running into thousands of crores was drafted and subsequently sanctioned by the Punjab National Bank (PNB) officials. The two executives of Nirav Modi admitted to preparing and signing the applications made to PNB but they refused to disclose details how and where such applications were finalised.

The agency, which is in the process of unraveling of what is believed to be one of the biggest bank fraud case in recent history has claimed that it has seized copies of fraudulent LoUs which were found during the searches at the office of Nirav Modi owned Firestar Group of companies at Peninsula Business Park, Lower Parel. These applications, CBI claimed were prepared in the name of three firms –Diamond R US, Solar Exports and Stellar Diamonds and submitted to PNB's Brady branch. The agency has alleged that Vipul Ambani, President (Finance) of Firestar group from May 2013 to November 2017 was fully aware of the fraudulent and illegal LoUs which were being issued by Gokulnath Shetty, retired Deputy Manager of PNB, in conspiracy and guidance of Nirav Modi.

"Vipul Ambani in his aforesaid capacity as President (Finance) was also visiting and meeting not only the officials of PNB, Brady House, Mumbai in the branch but also the officials of PNB, Circle and Zonal office at Mumbai and Head Office, New Delhi. In respect of question that who was preparing and maintaining the books of accounts of the aforesaid these firms, Vipul Ambani failed to give any answer or denial that he was not looking into the affairs of these firms. These documents (seized LoUs) and circumstances prove his knowledge of the fraudulent applications for LoUs being made in the same premises of Firestar Group of Companies and deliberate acts of omission by him by not protesting the issuance of such fraudulent LoUs, led to the continuance of concealment and large scale fraud in this case on PNB and loss and diversion of thousands of Crores of public funds. The aforesaid facts prove his part in this sinister conspiracy to cheat PNB," CBI has alleged.

In its note, the agency has made a startling revelation that even top officials of the PNB beginning with the zonal to head office was aware of the business dealing with Nirav Modi's companies and the assertion that top officials were ignorant has been neutralised by the probe agency.

The fugitive diamond merchant had made his executive assistant Kavita Mankikar authorised signatory of all three companies —

Diamond R US, Solar Exports, Stellar Diamonds — which have fraudulently obtained LoUs from PNB for issuance of buyers credit.

The probe agency said: "Kavita Mankikar had fraudulently signed the applications for issuance of the LoUs. During examination, she has not revealed the modus operandi of the scam and involvement of other persons from the firm as well as the Bank. Similarly it transpired that Arjun Patil, Senior Executive in Firestar International Private Limited had prepared the applications submitted to PNB, Brady house branch in the name of three companies. On examination, he has also not disclosed how and where such applications were fraudulently prepared."

Kavita has however, told the investigators that she was signing as authorized signatory of Diamond R US, Solar Exports, Stellar Diamonds as per the instructions and assurance of Nirav Modi without knowing the facts or ramifications of her actions.

Even Rajesh Jindal, the then branch manager, of the PNB branch under the scanner, was grilled for hours. He was questioned about the LoUs issued during his tenure in 2010-11, as he allowed Gokulnath Shetty to continue issuing LoUs without following existing banking procedure and Reserve Bank of India guidelines. Jindal, however, denied his involvement in issuance of LoUs. The CBI said all three employees of Nirav Modi and PNB's Jindal are not coming out with the truth and stating that they are not aware of what was happening in PNB Brady house branch, at all.

"They have not been able to give any reasonable explanation for their aforementioned acts in not blowing the lid off the whole scam as mentioned above, as, if they had done so without being hand in glove with Nirav Modi and other co-accused, the scam would have been detected and stopped. But their act allowed it to flourish by turning a blind eye to the fraudulent events going on in the office premises of Firestar Group of Companies," the CBI further said.

The agency, which is seeking 14-day police custody remand of officials for sustained interrogation has clarified that top officials of PNB will also be examined soon. The investigators are perplexed over the seamless flow of FLCs through SWIFT to overseas branch of various Indian Banks. The CBI officials said generally LCs needs to be authorized by three persons- first the person who is feeding it, second the officer who is verifying it and thirdly the person who is authorizing it.

"It seems, Shetty was playing the twin role of verifying and authorizing the LCs and had roped in someone to feed it in the system," officials said.

But, the mystery is not over yet. Once the LCs are made, report is generated in a particular server. The CBI is trying to find out how Shetty manipulated the entire system and even compromised the report that was generated on the server beyond his jurisdiction.

"It could be possible that he was not passing on the voucher to be recorded in CBS of the PNB but surprisingly, the LCs sent abroad would be credited to PNB Nostro account. The account is reconciled if not every day then at least once in a week because funds are transferred in foreign currency. Why no one at PNB checked it for several years is the big mystery needs to be unraveled," the CBI officials further added.

CA Institute issues show cause notice to PNB's Central Statutory Auditors

K.R.SRIVATS¸ BUSINESSLINE 23 2 2018

The CA Institute has summoned PNB's Deputy General Manager to appear and produce a copy of the First Information Report.

Show cause notice issued to auditor of Gitanjali Gems too

The CA Institute's Disciplinary Directorate has issued a show cause notice to all central statutory auditors of the scam-hit Punjab National Bank (PNB).

Similarly, central statutory auditors who have done a quarterly review of PNB have also been issued a show cause notice, the CA Institute had said in a statement issued on late Thursday night.

Gitanjali Gems auditor has also been issued a show cause notice in the matter, the statement added.

Also, the CA Institute has summoned PNB's Deputy General Manager to appear and produce a copy of the First Information Report, all related documents in the said fraud, and give details of the modus operandi used in the fraud.

Meanwhile, the CA Institute has also written to the Reserve Bank of India requesting them to provide the list of the corporate borrowers of public sector banks having an outstanding loan amount of Rs 2,000 crore and above so as to have the same examined by the Financial Reporting Review Board of the institute for any possible violation of applicable standards of accounting as well as auditing.

"ICAI reaffirms its commitment to be a proactive regulator of the auditing and accounting profession," the statement added.

Information sought from SEBI, CBI, ED

Soon after the Rs 11,300-crore PNB fraud came to light, the CA Institute's Disciplinary Directorate had as a proactive step, written letters on February 15 to the Securities and Exchange Board of India (SEBI), Central Bureau of Investigation (CBI), Enforcement Directorate (ED) and Punjab National Bank (PNB), urging upon them to share the details/reports/findings in respect of the said alleged fraud, including the copies of the specific findings, in respect of the involvement of any chartered accountant/firm of chartered accountants.

ICAI has also written to its parent Ministry i.e. the Corporate Affairs Ministry requesting to prevail upon SEBI, CBI, ED and PNB to share their findings with the CA Institute to enable it to accelerate the action against any chartered accountant who have played any role in this fraud.

CBI arrests Rotomac owner Vikram Kothari

Vikram Kothari

NEW DELHI, FEBRUARY 22/PTI

The CBI today arrested Rotomac owner Vikram Kothari and his son Rahul, both directors in the company, for alleged default on loan repayments to the tune of Rs 3,695 crore, officials said here.

Kothari, who was called at the agency headquarters here for questioning, and Rahul were not cooperating in the investigation that led to their arrest, they said.

A consortium of seven nationalised banks has given bank loans worth Rs 2,919 crore from 2008 onwards Rotomac Global Pvt Limited from 2008 onwards, the CBI FIR has alleged. The amount swelled to Rs 3,695 crore, including the accrued interest, because of repeated defaults on payment, the officials said.

The CBI has initiated the action on the complaint of Bank of Baroda, which was a member of consortium led by Bank of India, which had approached the agency fearing that Kothari may flee the country like Nirav Modi and his uncle Mehul Choksi.

CVC directive on transfer of bank staff will affect year-end operations: unions

AJ VINAYAK MANGALURU, FEBRUARY 22 BUSINESSLINE

Petition the commission to defer the order till March 31

Bank unions have said that the Chief Vigilance Commission's direction to immediately transfer officers and employees in public sector banks (PSBs) in the wake of the Punjab National Bank scam will affect their functions during the financial year-end.

They have sought the authorities concerned to defer the direction till the fiscal year-end.

The unions said that the CVC has directed banks to transfer all employees and officers immediately if they have remained in a particular place or position for more than five years and three years respectively, as on December 31 2017.

General Secretary of the All-India Nationalised Banks' Officers' Federation (AINBOF), said that this direction will affect the functioning of the banks during the financial year-end, and requested the Commission to defer the direction till March 31. Stating that the promotion and transfer process generally commences after the financial year is over and ends before the first quarter (June) in almost all the PSBs, he said, effecting transfers now and then undertaking the process immediately in another two months in a full-fledged manner will hamper the functioning of the banks for three-four months.

This will result in heavy workload and increased costs at a time when banks are already facing a host of problems, he said.

The transfer of experienced officers in crucial areas such as treasury operations, risk management, accounting and credit management at this time of the year would have a major impact, he said.

"The CVC's direction to transfer the officers and employees immediately, as if we were following faulty policies so far, has totally demoralised the lakhs of committed officers. This, we apprehend, may cause more damage to the banks," he said.

AIBEA

Meanwhile, in a letter to Finance Minister Arun Jaitely, the General Secretary of **All-India Bank Employees' Association** (AIBEA), C.H Venkatachalam, said that taking the cut-off date of December 31, 2017, and effecting such transfers on a mass scale would destabilise the functioning of the bank branches in a big way, especially when employees and officers in the banks are covered by memorandum of understanding to turn around the banks and are engaged in, among other things, the recovery of loans.

AIBEA THIS DAY – 24 FEBRUARY	
1999	Badge wearing and demonstration – 7^{th} Bipartite demands.
2004	UFBU All India Strike against supreme court verdict on strike.

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