PNB Banking Fraud Case - Part II

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Why in news?

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One of the branches of State-owned Punjab National Bank (PNB) has recently detected fraudulent transactions worth over Rs 11,000 crores.

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What are its implications on PNB?

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- For India’s second largest bank to be defrauded in the manner suggested is astounding, especially since regulatory oversight has tightened in recent years.
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- Notably, the mounting stressed asserts has led to greater scrutiny of account books by - bank’s audit committees and boards, as well as the central bank.
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- The government, had recently unveiled a plan to infuse about Rs. 1 lakh crore into 21 capital-starved public sector banks this fiscal (recapitalisation).
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- Of this, Rs. 5,473 crore is to be injected into PNB, which currently looks dwarfed in comparison to the amount that was swindled in the current scam.
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- Hence, despite the proposed infusion, the capital adequacy ratio of PNB is expected to worsen due to the fraudulent leakage.
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- Notably, PNB’s market capitalisation has dropped by Rs. 8,077 crore over the past two days, with the share price falling over 20% since the news broke.
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How have the various stakeholder reacted?

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- The bank’s top brass has suspending around 10 officials and the CBI has booked one retired and one serving PNB employee so far.
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- The bank has claimed that regulatory lapses are being probed, as a handful of junior employees couldn’t have orchestrated such a massive fraud singularly.
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- Enforcement Directorate has initiated a money laundering case against the main accused, billionaire-jeweller Nirav Modi, and his aides.
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- Notably, the firms run by him had seen a meteoric rise and an IPO was also in the offing soon.
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What is the way forward?

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- PNB has sought to blame overseas branches of other banks for not undertaking due diligence before accepting such transactions.
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- But that may be too simplistic an explanation and an inquiry by the RBI must get to the bottom of the systemic lapses to fix accountability across the sector.
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- While the banker-borrower nexus has plagued the banking system for years, this episode exposed that the nexus is a lot deeper than imagined.
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- RBI and investigating agencies should act speedily to restore trust in the banking system in particular and also the larger financial setup.
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Source: The Hindu

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