Rotomac Global – Public Banks Conned Again

What is the issue?

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- Kanpur-based Rotomac Global has orchestrated a scam of a Rs. 3,695 crore by means of wilful loan default to multiple banks.
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- Getting exposed barely days after the massive Punjab National Bank (PNB) scam, this has added to the woes that stares India's banking system.
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How has the case proceeded?

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- Based on a complaint filed by the Bank of Baroda (BoB), CBI has registered a case against 3 directors of Rotomac, and others (including some bank staff).
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- The allegations are that of cheating a consortium of seven Public Sector Banks (PSBs) by siphoning off loans disbursed to the company.
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- Rotomac Global had availed credit from multiple PSBs at different instances, from as early as 2008 on various pretexts.
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- The borrowed money was used for a range of seemingly unrelated transactions including the import of gems and jewellery and the export of wheat.
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- While it seems clear that a "**Ponzi style scam**" was in operation, the surprise is that it took such a long time for this to surface as a criminal complaint.
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How does this scam fare in comparison with the PNB scam?

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- **Similarities -** There are similarities in the breakdown of internal control mechanisms and in the supervisory failure at the banks in both the cases.
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- Lower level bank officials being complicit in the fraud are indeed reprehensive, but there also seems to have been a supervisory level lapse (or collaboration).
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- In both cases higher level involvement is implicit as risk detection and taking remedial action was clearly delayed or not done at all.
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- **Difference -** In the PNB case, reporting systems were bypassed (literally off the record), and even the subsequent 3-tier audit failed to detect this.
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- In contrast, BoB was completely aware of Rotomac's default and took unreasonably long to take action.
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- Notably, Rotomac was listed as BoB's top defaulter almost a year ago and its account has been classified as 'Non Performing' since 2015.
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- Here, the fact that even RBI (which overseeing bank books regularly) hasn't taken timely corrective action is concerning.
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What is the way ahead?

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- The need for strengthening corporate governance by infusing greater professionalism, transparency and accountability in PSBs has been routinely reiterated.
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- It is time the Centre (as the major shareholder), takes serious steps to translate these above mentioned intentions into action.
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- Any improvement in the functioning of the PSBs cannot be undertaken without empowering bank managements.
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- Securing their independence from political interference and enforcing strict accountability for lapses are also very important.
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- 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.

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- The fact that, “the economic cost of letting this rot continue unabated could prove catastrophic”, needs to be recognized.
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Source: The Hindu

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Ponzi Scam -

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- It is a module in which a new borrowing is made to settle previous loans.
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- This cycle of borrowing again and again is done repeatedly till it is busted.
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