

Rotomac Global - Public Banks Conned Again

What is the issue?

\n\n

\n

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

\n

\n\n

How has the case proceeded?

\n\n

\n

- 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).
- The allegations are that of cheating a consortium of seven Public Sector Banks (PSBs) by siphoning off loans disbursed to the company.
- Rotomac Global had availed credit from multiple PSBs at different instances, from as early as 2008 on various pretexts.
- The borrowed money was used for a range of seemingly unrelated transactions including the import of gems and jewellery and the export of wheat.
- 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.

\n

\n\n

How does this scam fare in comparison with the PNB scam?

\n\n

\n

- **Similarities** - There are similarities in the breakdown of internal control mechanisms and in the supervisory failure at the banks in both the cases.

\n

- Lower level bank officials being complicit in the fraud are indeed reprehensible, but there also seems to have been a supervisory level lapse (or collaboration).

\n

- In both cases higher level involvement is implicit as risk detection and taking remedial action was clearly delayed or not done at all.

\n

- **Difference** - In the PNB case, reporting systems were bypassed (literally off the record), and even the subsequent 3-tier audit failed to detect this.

\n

- In contrast, BoB was completely aware of Rotomac's default and took unreasonably long to take action.

\n

- Notably, Rotomac was listed as BoB's top defaulter almost a year ago and its account has been classified as 'Non Performing' since 2015.

\n

- Here, the fact that even RBI (which overseeing bank books regularly) hasn't taken timely corrective action is concerning.

\n

\n\n

What is the way ahead?

\n\n

\n

- The need for strengthening corporate governance by infusing greater professionalism, transparency and accountability in PSBs has been routinely reiterated.

\n

- It is time the Centre (as the major shareholder), takes serious steps to translate these above mentioned intentions into action.

\n

- Any improvement in the functioning of the PSBs cannot be undertaken without empowering bank managements.

\n

- Securing their independence from political interference and enforcing strict accountability for lapses are also very important.

\n

- 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.

\n

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

\n

\n\n

\n\n

Source: The Hindu

\n\n

Ponzi Scam -

\n\n

\n

- It is a module in which a new borrowing is made to settle previous loans.

\n

- This cycle of borrowing again and again is done repeatedly till it is busted.

\n

\n\n

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering