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PNB Fraud: Banks for raising cover against fraud by staff

BY PTI | UPDATED: FEB 25, 2018, 09.02 PM IST

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NEW DELHI: Rattled by a spate of frauds in the [banking sector](#), lenders are now planning to increase insurance cover against delinquencies by their employees to protect their bottomlines.

"Frauds of such magnitude and scale -- [PNB fraud](#) Rs 11,400 crore and OBC fraud Rs 390 crore -- has forced us to consider substantially much higher risk cover than the basic banker's indemnity policy which various banks have right now," a top public sector bank official said.

Besides, tightening internal risk mechanism and vigilance, banks have to look for higher cover to guard against such fraud where employees are involved, the official said, adding, this will help insulate the balance sheet.

Punjab National Bank had only bought a basic banker's indemnity policy, which covers employee fraud, to the extent of Rs 2 crore which would not cover even 0.2 per cent of Rs 11,300 crore fraud done allegedly by [Nirav Modi](#), [Mehul Choksi](#) and his associates in connivance with officials of a Mumbai branch.

Soon after this, a case of alleged swindling of Rs 390 crore from [Oriental Bank of Commerce](#) (OBC) was registered against a Delhi-based diamond jewellery exporter. In between there was a fraud case of Rs 3,695 crore by Rotomac Pen company owner [Vikram Kothari](#) in which the CBI filed cases and effected several arrests.

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For example, SBI alone in 2016-17 reported frauds of Rs 2,424.74 crore (837 cases). Out of this, an amount of Rs 2,360.37 crore (278 cases) represents advances declared as frauds.



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With faith on their own internal audit system and risk management, banks were not keen for higher cover but a series of frauds in the system have compelled them and in the recent Indian Banks' Association meeting also the issue came up for the deliberation, the official of another public sector lender said.

However, the official said, cover can be for fraud not for the wilful default where number of lenders are involved and these two have to be dealt separately.

The official said for example the cases of Winsome Diamond Group and Nirav Modi are completely different, and the legal treatment and provision for both are diverse.

In the Winsome Diamond Group's case, the company took a loan of Rs 6,800 crore from a consortium of banks, including PNB. However, Nirav Modi primarily cheated PNB by getting fake LoUs made in connivance with various bank officials.

Besides, there is allegation of forgery and unauthorised use of global payment network SWIFT for unauthorised issuance of credit instrument (LoU) while lenders issued standby letters of credit in favour of international bullion banks to supply gold to Winsome Group companies.

Out of Rs 6,800 crore outstanding, Winsome's associate Forever Precious Diamonds and Jewellery owes another Rs 2,121.82 crore to a set of banks led by PNB.

At the same time, Winsome so far is seen and tried at various courts of law as case of commercial default by an old customer Haytham and due to cross-default clause in standby letters of credit (SBLC) resulting in cumulative large default on banks.

Recently, the Sharjah Federal Courts have passed decrees in favour of Winsome Diamond and its associate Forever and against the overseas customers controlled by Jordanian national Al Haytham in the suits for recovery of money.

The court process involved institution of an experts' committee which concluded that the transactions were genuine and money is owed by Haytham companies to Winsome. The order also attributed the cause of Haytham default to his losing money in derivatives trading.

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