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# View: PNB fraud raises too many questions to rule out wider collusion

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**By Anjana Menon**

[Punjab National Bank \(PNB\)](#) has pinned a \$1.8 billion fraud, the biggest in India's banking history, on two branch-level employees. That's the kind of baloney only fools should believe. The duration and magnitude of the fraud raises too many questions to rule out wider collusion.

It also rules in wilful negligence and a collapse of risk mitigation across the banking system. For a start, it seems several norms were flouted in crafting allegedly unlawful letters of undertaking (LoU) to the tune of thousands of crores for jeweller [Nirav Modi](#).

Two junior employees in a bank branch allegedly helped Modi along for more than six years. They avoided employee transfer norms that limit the amount of time any staffer can stay at one branch. So, they circumvented basic rules crafted to prevent borrower-lender cosy collusion. Then, it seems, the said branch employees were authorised to unilaterally issue LoUs well above what their pay grade would suggest — guarantees running into hundreds of crores.

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These letters were then accepted by several other banks who never crossverified anything, even accidentally, for years. Worse, the LoUs, by PNB's own admission, flagrantly violated RBI's limit of 90 days of credit by recasting that to a year. Yet, not a single overseas lending bank noticed this. There were 30 of them.

An LoU is a bank guarantee, a sort of gold promise the bank issues to customers, which they can use to get money from overseas banks. It's something that should be accounted for somewhere, even if it is a non-funded item.



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Strangely, it seems that the mandatory concurrent audit that matches transactions never picked up any irregularities, even though the money Modi borrowed should have reflected in PNB's nostro account.

Which then brings us to the auditors of PNB, internal and external.

Is it possible that a branch that holds accounts for a list billionaire's firm escapes close scrutiny? Modi was a [Forbes](#) rich-lister. By all means, the branch in question must have been doing enough high-value transactions for it to be in the spotlight. Not a single external auditor, four at any given point in time, found anything amiss while reconciling transactions and undertakings.

It is also not clear if the branch was inspected by RBI, which ideally would have been drawn to accounts maintained by businesses of a certain risk category. In this particular case, the central bank, auditors and the senior-most management of PNB already had a giant red flag flapping in their face.

A few years ago, PNB, along with a clutch of other banks, was had by [Winsome Diamond Group](#), another jewellery firm that defaulted on letters of credit (LoCs) to the tune of Rs 6,800 crore. It turns out PNB had the largest exposure at Rs 1,800 crore.

Given all this, it would call for a very rich imagination to assume that PNB never tightened its internal controls and mechanism of guarantees and undertakings, especially to the jeweller community. And that no one — from public sector officials, the vigilance officer, to the bank regulator or even the board of directors — focused on tightening up the criteria for issuing LoCs or LoUs.

Finally, all those who believe that the fraud was pulled off by just two employees must ask what sort of business intelligence technology our banks use. In banking, all transactions are now reflected in real time and captured on a dashboard available to multiple gatekeepers. Besides, the transaction and bookkeeping software should be sophisticated enough to pick up irregular data that the human eye might miss.

PNB's repeated misadventures must be seen as a failure not just of risk management processes, but also of the banking regulator's role. The larger series of systemic failures, from Vijay Mallya's well-chronicled default of loans, to that of Winsome Group, spotlights the indifference of the custodians of public money.

The Nirav Modi episode, including his undetected departure from India like several other alleged fraudsters before him, also sends out a damning message to a billion Indians. This message, a line from Oliver Goldsmith's *The Vicar of Wakefield*, cuts across political parties: laws govern the poor, and the rich govern the law.

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