

# Business Standard

## PNB scam: RBI initiates audit of PSBs with focus on trade finance, LoUs

Most of the banking frauds and wilful default cases, like Nirav Modi and Vijay Mallya's cases are said to pertain to trade finance

Press Trust of India | New Delhi March 12, 2018 Last Updated at 01:14 IST



Rattled by the spate of [banking frauds](#), [RBI](#) has initiated special audit of state-owned lenders with focus on trade financing activities, especially relating to the issuance of letters of undertakings (LoUs) by them, banking sources said.

In addition, the RBI has asked all banks for details of the LoUs they had written, including the amounts outstanding, and whether the banks had pre-approved credit limits or kept enough cash on margin before issuing the guarantees.

Most of the big banking frauds which were unearthed in the recent past, including the one perpetuated by diamantaire [Nirav Modi](#) and his associates, pertain to trade finance. Also, many of the willful default

*People stand in front of the logo of Punjab National Bank outside a branch of the bank in New Delhi | Photo: Reuters* cases have their roots in trade finance, the sources told *PTI*.

In view of the recent Rs 126.46 billion [PNB scam](#), done through fraudulent issuance of LoUs by the connivance of the bank's staff, it was pertinent for the regulator [RBI](#) to examine the issue of trade finance which also included issuance of letter of credit (LC) and LoUs, sources said.

Soon after Nirav Modi case came to light, the [CBI](#) registered a case against a Delhi-based diamond jewellery exporter Dwarka Das Seth International for an alleged bank loan fraud to the tune of Rs 3.9 billion towards Oriental Bank of Commerce (OBC).

Dwarka Das Seth International availed various credit facilities from OBC between 2007-12.

Also, in the Bank of Baroda fraud case of 2015, two Delhi-based businessmen cheated it of Rs 60 billion by using the trade finance mechanism.

Investigations in BoB fraud case revealed major irregularities relating to trade finance as several forex transactions were done mainly via advance remittances for import, through newly-opened current accounts. Heavy cash transactions -- sometimes four or five times a day -- were also noticed.

Besides, the government on its part recently asked the state-owned banks to scrutinise all cases of non-performing assets (NPAs) exceeding Rs 500 million for possible fraud and report the matter to the [Central Bureau of Investigation](#) (CBI).

Banks have also been asked by the finance ministry to come up with a "pre-emptive" action plan within a fortnight to combat rising operational and technical risks, and assign clear accountability to senior functionaries.