

Crisis in banking system has impacted investment flows: IL&FS

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Comments

The recent crisis in the country's banking system has impacted investor sentiments, leading to

some slowdown in the investment flow, a top official from IL&FS Financial Services said.

The crisis, however, gives an opportunity to improve the overall processes and to built up a strong system, IF&FS Financial Services managing director and chief executive officer, Ramesh Bawa, told reporters here today.

When asked about the extent of impact of the banking crisis, Bawa said, "Huge...It (crisis in banking system) has already impacted investors sentiments."

In February, second largest public sector bank Punjab National Bank detected fraudulent transactions at one of its branches in Mumbai. The biggest ever banking fraud of more than Rs 13,000 crore was allegedly committed by billionaire diamantaire [Nirav Modi](#) and his associates in connivance with some officials of a Mumbai branch of the bank.



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Besides [PNB](#) NSE 0.54 %, private sector lender [ICICI](#) NSE 0.78 % Bank is also embroiled in a controversy over alleged conflict of interest involving its chief executive officer [Chanda Kochhar](#) and business dealings of her husband Deepak Kochhar.

Another private lender, [Axis Bank](#) NSE 0.52 %, recently saw curtailment of tenure of its managing director and chief executive officer Shikha Sharma to seven months following a nudge by the [Reserve Bank of India](#) in the wake high levels of non-performing assets (NPAs) in the bank.

Bawa termed the crisis as only a temporary phenomenon, adding, "The investment flow (into the country) has become slow, but it is only for the time being."

He said it is not possible to suppress investors' concerns in such events.

"They (investors) are certainly bound to ask you that even if you don't find a fault with an individual institution or a person, but the system seems to be weak," he said.

Last month, the International Monetary Fund's deputy managing director Tao Zhang had said banking reforms like insolvency code and recapitalisation will be ineffective unless governance standards are improved.

Without naming the Punjab National Bank, he had said the scam has "revealed the necessities and urgencies to improve the internal controls", which is crucial not only for improving banks but also "financial stability".

Bawa appreciated the steps taken by all the stakeholders, including the government in dealing with such situations in the banking system.

Referring specifically to the PNB fraud, he said, "The best thing the government or the finance ministry had done is that on the day-one they gave a statement that all the liabilities (arising out of the fraud) need to be borne by the PNB. This has given a relief to the investors." HV SS SS