

# Punjab National Bank Scam and Its Effects in India.

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## Abstract

A very big Bank scam happened few months before at Punjab National Bank which was approx Rs.12700 crore involve at least bank. This scam raising doubt over safety and security of internal firms. This raises the questions on internal operation and auditing. It is the time in which all public sector banks (PSB) should review their internal process and take action accordingly. The aim of this paper is to identify the factors that are responsible for this massive scam, this paper also reveal the impact of PNB scam on Indian economy and condition NPA in banks in India. I have used expert opinion and various news for this study.

**Keywords:-** PNB, Scam, Process, factors, auditing ,NPA, economy, PSB

## Introduction

India is suffering losses more than Rs.100000 crore due to the bank fraud since last 5 years. The whole economy is suffering due to these bank frauds. Financial frauds in banks are happening very frequently in India. The financial frauds not only adversely affect the bank but also affecting the every Indian citizen. These financial frauds are responsible for slowing down our economy. These scams not only degrading the credit of our country but also demotivate the FDI and FII in our country. Now the banks will rethink many times to give business loan to a honest businessman and it affects the government startups programs. Lots of NPA is creating due to the frauds and scam in our country, and the burden of this will come on the shoulders of common people of India. This is the time that India should reform the internal management system of banks and make new safe policies to save Indian liquidity in market otherwise the day is not so far that our economy will suffers a lots. RBI and the government of India should have to make policies so that our Indian business as well as our financial institution should be safe. In February 2018 India faced a very big scam in Punjab National Bank (the second largest commercial bank of India). Now so many changes will occur in Indian economy due to this financial frauds .in this paper we will see the impact of this bank fraud in India.

## Objectives of the study

1. To know and make aware of present condition of NPA and worth of financial frauds in the banking sector in India.
2. Find out the causes of PNB scam happened in February 2018
3. To know and make aware people about Impact of PNB scam on Indian economy.

## Data Collection

I have used secondary data for this study. The data is collected from text books ,journals, articles , news papers and the internet websites which is related to our study.

## Measurement

The measurement is based upon expert opinion and situation specific scenario and article published on internet.

## Theoretical Framework

### 1. RBI Reported Rs. 1 lakh crore bank fraud within last 5 years.

With the evidence of article published in times of India dated 2 may 2018 RBI said that Rs.1 lakh crore bank frauds recorded in India during last 5 years.

Following details of frauds provided by RBI during last 5 years.

Years	No. of Cases of Bank Frauds	Financial Frauds Worth Rs. (Crore)
2017-18	5152	28459
2016-17	5076	23933
2015-16	4693	18698
2014-15	4639	19455
2013-14	4306	10170
<b>Total</b>	<b>23866</b>	<b>100715</b>

Source :- (<https://timesofindia.indiatimes.com/business/india-business/over-23000-bank-frauds-worth-rs-1-lakh-crore-reported-in-5-years-rbi/articleshow/63998429.cms>)

From the above table it is clear that total 23866 bank frauds cases recorded of worth Rs. 100715 crore.

### 2. The condition of Bank's NPAs in India

The condition of NPAs of all banks in India till December 2017 was Rs. 840958 crore by providing industry loan.

Following table is showing the NPAs of the leading bank running in India.

Bank Name	NPA of Rs. Crore
State Bank of India	2,01,560
Punjab national Bank	55,200
IDBI Bank	44,542
Bank of India	43,474
Bank of Baroda	41,649
Union Bank of India	38,047
Canara Bank	37,794
ICICI Bank	33,849
<b>Total</b>	<b>496115</b>

Source :- (<https://timesofindia.indiatimes.com/business/india-business/over-23000-bank-frauds-worth-rs-1-lakh-crore-reported-in-5-years-rbi/articleshow/63998429.cms>)

### 3. The Biggest Banking Fraud In Financial Year 2018

According to article published in ndtv.com on dated 27 march 2018. The Punjab National Bank which is second largest state-run- lender has been dubbed as the biggest fraud in India's banking history. In February 2018 Rs.12954 crore scam found in PNB by the Nirav Modi and his uncle Mehul Choksi who is the owner of gitanjali gems. These two jewelers raised their credit from overseas banks on th basis of fraudulent guarantees. They both fled the country in January 2018. They fled one month before PNB filed its first complaint against them.

SBI the largest lender of the country found Rs. 824.15 crore bank fraud by kanishk gold Pvt. Ltd. CBI registered a case against kanishk gold which was accused of defrauding a consortium of 14 banks led by SBI.

Canara Bank was defrauded of Rs. 1 crore by its own former chairman. CBI has arrested seven people including its former chairman.

Another case was found of fraud about Rs. 515 crore. CBI arrested two directors of a company RP Infosystems due to this fraud. They had allegation of cheated the banks by using forged documents for raising credit.

### 4. At every one hour on an average one fraud happened.

According to Indian Bank report published in 2 April 2018 by Nupur Anand is that every hour on an average at least one fraud is happening in the financial year 2017 in India. It also reported that In march 2018 irregularity in ICICI bank is also happened along with PNB scam which was happened in February 2018.

Former Deputy Governor of RBI KC Chakrabarty said that this quantum of fraud is the result of weak internal control and oversight by regulator.

Ironically, public sector banks (PSBs), which lost the most amount of money to frauds, spent significantly more on audits than their private sector peers. "But this has failed to improve audit quality. The focus now needs to shift to strengthening the audit quality by plugging process gaps and streamlining the checks and balances," the report said.

In some banks the total quantum of losses due to frauds is low, but the average fraud size is high. For example in the case of bank of Maharashtra, Punjab National Bank.

IF we look the case of bank of Maharashtra located in Pune the percentage of fraud amount of total assets of the state run lender was 1.02%. It was the gross NPA of 19% this means that one fifth of the asset size is at risk every year due to the weak controls.

### 5. Reason for banking frauds

In spite of RBI guided to link the CBS with SWIFT to all bank PNB violate this order and (CBS) Core Banking system of PNB was not linked with SWIFT (Society for Worldwide Interbank Financial Telecommunication) therefore bank officers secretly issues the letter of undertaking to Neerav Modi's companies and confirming them with counter party banks overseas through the SWIFT system.

Economist Vijay Sardana said in the sputnik news about PNB fraud is “too much power in the hands of few” Vijay Sardana also said that if the government of India wants to clean the system from the corruption and frauds, they should remove the power all discretionary powers from individuals and shift it to the committees to make the system transparent.

Vijay Sardana also said the fraud in PNB is nothing but it is a case of rough behavior of employees, failure of internal controls, poor management system, incompetent auditors, careless board of directors. Central bank is also failed in insuring auditing of the risk management. It is also a failure of corporate governance to track it.

This kind of scams (Vijay Malya , Nirav Modi) breaks the confidence of international investors.

Vijay Sardana also said that it is very difficult to recover the loss of banking system due to these kinds of frauds. Because various factors are involves for this losses. Business cycle disrupted due to demonetization and it has increased the NPA.

Vijay Sardana also said about government initiatives of curbing the black money. He said that there is huge gap between the government committed and government did. The common citizen of India was directed to the digital payments for daily transactions, but the same thing was not for the political donations. The political donation was kept open for cash transfer. And all black money is used for political activities.

## **6. Some reason of bank frauds has enlightened by former Governor Raghuram Rajan.**

According to article published in Business Today dated 12 April 2018,former RBI governor Raghuram Rajan explain some reason of Bank’s failure to stop fraud.

Former RBI governor Raghuram Rajan said that some banks in India are still following the antiquated systems which are not enough to stop corrupt people for doing fraud.

In the case of PNB fraud Raghuram rajan explain that there was two bank officials who had bypassed the core banking system of banks to issue fake letters of undertaking to the company of Nirav Modi and his uncle Mehul Choksi.

Mr. Raghuram Rajan also enlighten about demonetization step taken by Indian government. He said that demonetization was not well planned and useful exercise. According to him demonetization had a negative impact but the idea was somehow useful for collecting taxes who stored their money in their lockers.

## **Impact of financial fraud**

### **1. Customer switches their choices from government banks to private bank.**

According to article published in business standard dated 16 February 2018 customer now prefer the private bank rather than the government bank. An online poll conducted by business standard on facebook and twitter and it shows that 54% customer prefer private banks rather than government bank after the PNB scam happened in February 2018.

## 2. Indian business will be affected negatively due to Bank fraud.

Finance minister Mr. Arun Jaitley said that Bank fraud will negatively affected the government objectives of ease of doing business.

Mr. Jaitley said that the strict and tighter laws is necessary to ensure criminal act in business and it should be punishable.

## 3. Effect of PNB scam done by Nirav Modi on Indian Economy.

According to Ranu Jain, the article published in 26 February 2018, She said that the bank fraud not only affect the banking sector but also the whole economy.

Ranu Jain have suggested the following about the impact of PNB scam on Indian Economy.

1. Banks and Jewelry sector stocks under pressure
2. Diamond business might shift from India to Belgium and Israel
3. Increase in difficulties for diamond businessmen for getting credit or loan from Indian banks

The PNB scam affected adversely on all of its shareholders along with government of India, banking industry, employees of PNB , citizens of India etc. FII confidence and trust of public is finished. The image and values of Indian public sector banks and diamond business has denigrated. Ranking of India is degraded by global rating agencies. These effects are so harmful for Indian economy.

## Conclusion

Indian economy is suffering very badly due to this bank scam. Total NPA of the top 8 commercial bank is Rs. 496115 crore in India in spite of this bank scam is happening day by day. It will paralyze our Indian economy. The responsible factors of PNB bank scam are the failure of internal control and the poor management of the bank. Two of the corrupt bank officials bypassed the core banking system of banks to issue fake letters of undertaking to the company of Nirav Modi and his uncle Mehul Choksi.

Due to this PNB bank fraud the banks and the jewelry sector are come under pressure. The probability of shifting the diamond business from India to Belgium and Israel has increased.

Now getting the credit and loans from Indian bank has become very difficult for diamond businessman.

Customers are now switching their choices from government bank to private bank. The trust of customer became less over Indian public sector banks.

The finance minister Mr. Arun Jaitley also mention that Indian business affected negatively due to the bank fraud happened in India.

Government of India must make serious polices to control the Indian financial system. RBI should frame the policies to control the bank frauds.

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