

PNB-Nirav Modi Isn't A One-off Case

Better late than never, apt time for banking sector reforms is now

Photo Credit : Reuters,



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by **Dr Sunil Gupta**

If there exists any one issue where India's present dispensation, opposition, media and renowned intellectuals can find a common ground, it is the banking mess. The blame game is on; opposition and BJP-ruled government are finding ways to attribute the USD 2 billion fraud to one another, the Finance Ministry has found RBI - the banking sector regulator - guilty of lack of oversight, while RBI has come out with a seemingly-valid excuse that the Banking Regulation Act doesn't allow the agency to exercise complete control over public sector banks (PSBs).

Every bit cited above is in public domain, so why should I mention them in this piece? Every student of finance comes across an accepted notion that banks are the backbone of any economy. This justifies why we shall be even more worried about instances where banking institutions are defrauded, are not repaid what is owed on due dates and are compelled to approach forums like NCLT.

And for anyone who believes that Indian banking sector has landed in trouble only after it came to light how Nirav Modi, in collusion with Punjab National Bank's Mumbai branch officials, used letters of undertaking (LoU) as a tool to con the institution, she must know that PNB's wilful defaulters list (last updated on 30 January 2018) has more than 1,000 names with INR 25 lakh and above as outstanding in each case (not all can be instances where credit was procured

through unfair means, but one thing is certain - Nirav Modi case isn't an isolated one).

In a separate case, the CBI has filed a chargesheet against former CMD of state-run Canara Bank for an alleged fraud of around INR 68 crore; here the bank officials connived with a [Delhi](#)-based jewelry company to extend credit which was subsequently siphoned off. The lists compiled by other public sector banks of respective wilful defaulters runs into thousands and all these facts and figures are indicative of the distress of not only banks, but also other stakeholders.

Let's admit that since the PNB-Nirav Modi case received exceptional media coverage and high NPA figures (owing to strict instructions given by RBI to banks on provisioning for bad assets) have become the talk of the town, everyone is debating good governance in banks, privatisation of PSBs, non-interference by ministers and bureaucrats in credit offtake and accountability of bank officials in cases of frauds.

Of late, yes the RBI has come up with some laudable interventions, such as bringing 11 PSBs under prompt corrective action (PCA), besides plugging loopholes in overseas credit to exporters, although the move of an absolute ban on issue of letters of undertaking is being criticized as too harsh, something that can lead to increased borrowing costs and delay in approvals.

Parliament has also passed law for time-bound insolvency and RBI has been accorded powers to direct banks to refer cases of wilful defaults to NCLT. But are these measures enough in improving the health of our banking institutions that are reeling under lack of capital, with drop in demand for credit worsening the matters?

Only bold reforms, which include phased privatisation of public sector banks, rationalization of salaries of banking personnel to make operations financially viable, intensified oversight through independent and fair audit of loan books and infusion of good governance norms, can revive our ailing banking system. The Modi-led government that could earn acceptance of electorate for its moves like demonetisation and GST can usher in these reforms, unlike past governments led by fragile alliances, which could never muster the courage to stand up to the clout of trade unions.

Better late than never, apt time for banking sector reforms is now.



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