



How can banks prevent Nirav Modi-Like scams?

## Description

### Background :-

- Two employees of Punjab National Bank, the second largest public sector bank of India, tie up with Nirav Modi and issued LOUs (Letter of Undertaking) to overseas banks through SWIFT (Society for Worldwide Interbank Financial Telecommunication), without noting this in bank ledgers.
- This fraud started taking place since 2011.
- Through these fake LOUs, several companies that are related to Nirav Modi were granted buyer's credit from the HongKong branches of Indian banks including SBI, Axis bank, Union Bank of India.
- These frauds amounted to approx Rs.14,000 crores when added up. (as of March 2018)
- After recognizing this scam, several similar scams are coming out. Rotomac, Kanishk and Totem infrastructure Ltd are now under scanner.

### loopholes that led to these scams :-

- SWIFT is not integrated with core banking in many banks yet. This was the reason, fake LOUs weren't found out till recently.
- As per rules, bank officers should be transferred for every three years. But this is not being followed.
- Nirav Modi fraud wasn't found out in internal audits as well as external audits. This is revealing the efficiency of audits. Quality of internal audits and of Audit companies should be improved.
- Reserve Bank of India (RBI) too couldn't recognize the scam. The present RBI governor Urjit Patel said that it was because RBI needs more regulating authorities to trace these kind of scams, and he suggested that Banking Regulation Act needs to be reformed.
- Both RBI and Government has control over banks. Experts opine that this dual control is causing many confusions and scams.

- Banks Board Bureau (BBB), an autonomous body of Union Government of India, which was started in 2016 was initially setup for two years to improve the governance of Public sector Banks (PSBs). If it is revamped, it will surely improve the efficiency of PSBs.
- As government has privileges such as control over banks, it should also take responsibility of supervision and monitoring, which is not happening right now.

**Conclusion :-**

Government, RBI and Banks are all equally responsible for these kind of frauds. And instead of blaming one another, loopholes at every point should be taken care of. Several layers of checks and balances should be built to prevent Nirav Modi-Like scams.

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