

PNB: freeze on lending feared

Industry warns against halt on loans; asks Centre to address systemic risks

PRESS TRUST OF INDIA
NEW DELHI

Lending to corporates should not be choked as a fallout of the ₹11,400-crore fraud at Punjab National Bank, especially at a time when credit growth is about to recover and the economy is set to grow at a higher pace, India Inc has cautioned.

The Indian industry had called for better control systems to check financial frauds and had also, earlier, suggested gradual reduction in government holding in public sector banks (PSBs).

“Government, regulators and industry must act fast to address systemic risks in the financial sector. The three key solutions for the banking sector are better management and operational effi-



Poor protection: PNB had a basic banker's indemnity policy against employee fraud of only up to ₹2 cr. • R.V. MOORTHY

ciencies, use of technology such as blockchain and big data analytics, and lowering government shareholding in public sector banks,” CII President Shobana Kamineni said in a statement.

Assocham cautioned

against allowing the alleged fraud in the PNB to halt the entire system of corporate lending as demoralisation would set in among the top functionaries and employees of government-owned banks.

It was something the country could ill-afford at a time when credit growth was about to recover and the economy was set to grow at a higher pace, Assocham said.

Increased cover

Meanwhile, lenders are now planning to increase insurance cover against delinquencies by their employees to protect bottomlines.

“Frauds of such magnitude and scale... have forced us to consider substantially much higher risk cover than the basic banker's indemnity policy,” a top public sector bank official said.

PNB had bought a basic banker's indemnity policy covering employee fraud up to ₹2 crore, which would not cover even a fraction of the value of the recent fraud.

PNB fraud: Industry cautions against lending freeze

Corporate India calls for better control systems to check financial frauds

PTI
NEW DELHI, 25 FEBRUARY

Lending to corporates should not be choked as a fallout of the Rs 11,400-crore fraud at Punjab National Bank, specially at a time when credit growth is about to recover and the economy set to grow at a higher pace, corporate India has cautioned.

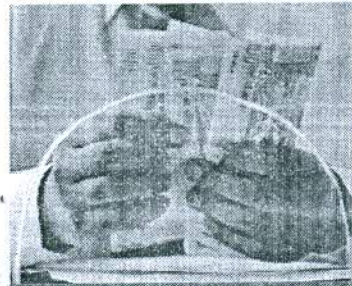
The Indian industry called for better control systems to check financial frauds and also suggested gradual reduction in government holding in public sector banks (PSBs).

The Confederation of Indian Industry (CII) said the government should lower its stake in PSBs to 33 per cent gradually and adopt a twin strategy for tackling financial frauds, including better monitoring and supervision of banks and spread of best corporate governance standards.

"The government, regulators and industry must act fast to address systemic risks in the financial sector. The three key solutions for the banking sector are better manage-

CII & ASSOCHAM OPINION

▶ The government, regulators and industry must act fast to address systemic risks in the financial sector. The three key solutions for the banking sector are better management and operational efficiencies, use of technology such as blockchain and big data analytics, and lowering government shareholding in public sector banks, CII president Shobana Kamineni said



▶ Assocham secretary-general D S Rawat said while long-term solutions like privatisation of banks can be sought, the need of the hour is to rally around honest bank officers and honest business entities which have built trust on each other

ment and operational efficiencies, use of technology such as blockchain and big data analytics, and lowering government shareholding in public sector banks," CII president Shobana Kamineni said in a statement.

Assocham cautioned against allowing the alleged fraud in the PNB to halt the entire system of corporate lending as demoralisation

would set in among the top functionaries and employees of the state-owned banks.

It is something the country can ill-afford at a time when the credit growth is about to recover and economy is set to grow at a higher pace, Assocham said.

The CII president said financial malfeasance perpetrated by a collusion of unethical business entities

and corrupt officials should not lead to a situation where funds to industry get choked.

"It is time for the government to consider consolidation of PSBs and develop a few strong banks adhering to best standards in governance, accountability and transparency. Currently, shareholdings of the government have been rising with bank recapitalisation attempts, and these should be brought down to 52 per cent at the earliest as intended by the government," she said.

A roadmap could be announced for bringing the government stake to 33 per cent in three to four years, CII said.

Assocham secretary-general D S Rawat said while long-term solutions like privatisation of banks can be sought, the need of the hour is to rally around honest bank officers and honest business entities which have built trust on each other.

"Let one or a few black sheep not derail our financial system, which is resilient enough to withstand this kind of shocks, though ideally such

jolts are better avoided and averted through systemic reforms," Mr Rawat said.

Citing January export data that showed a deceleration in growth even as the global economy is on uptick, Assocham said the prick-up in the domestic economy would require higher imports.

"Thus, both imports and exports are key to our economy and we have come a long way in scaling up the interface between the government agencies and the trade over the years. It is time to correct the systems which had allowed the misuse and move on with the task of achieving higher economic growth," Assocham said.

The industry said there is a need to strengthen internal systems of enterprises and adherence to regulatory norms in letter and spirit.

"While we need to ensure safe and sound functioning of the system and not allow loopholes like those in the PNB system of money or guarantee transfer, let banks not over-react and hit the trade and industry," Assocham said.

SIDE EFFECTS

Don't halt loans: India Inc

■ Stopping corporate lending would demoralise the top functionaries

AGE CORRESPONDENT
NEW DELHI, FEB. 25

Industry chambers CII and Assocham on Sunday asked the government that the PNB fraud should not hinder bank loans to businesses which were showing signs of revival after being hit by demonetisation and GST.

"Such financial malfeasance perpetrated by a collusion of unethical business entities and corrupt officials should not lead to a situation where funds to industry get choked," said Shobana Kamineni, president, CII.

She called for a twin strategy for tackling financial frauds, including better monitoring and supervision of banks and spread of best corporate governance standards.

Assocham also cautioned against allowing the alleged fraud in PNB to halt the entire system of corporate lending as demoralisation would set in among the top functionaries and employees of the state-owned banks, something the country can ill-afford at a time when the credit growth was about to recover and economy was set to grow at a higher pace.

"While we may seek long-term solutions like privatisation of the banks, the need of this hour is to rally around the honest bank officers and the honest business entities which have built trust on each other. Let one or a few black sheep not derail our financial system, which is resilient enough to withstand this kind of shocks, though ideally such jolts are better avoided and averted through systemic



The letters of credit or letters of undertaking are an internationally accepted system of global trade. While we need to ensure safe and sound functioning of the system and not allow loopholes like those in the PNB system of money or guarantee transfer, let banks not over-react and hit the trade and industry... By all means, punish the offenders at a fast speed and set examples; but the business should not be allowed to halt

— ASSOCHAM

SEBI, BOURSES TO PROBE FOR MANIPULATION

New Delhi, Feb. 25: Sebi and stock exchanges are looking into possible manipulation in equity and derivatives trade of some public sector banks in the wake of circulation of a fake letter purportedly for misleading the investors.

The fake notice bearing the regulator's logo and purportedly addressed to NSE was circulated on WhatsApp groups and other social media platforms on February 21.

It apparently sought to mislead the market community in the wake of PNB scam by suggesting that Sebi was seeking details of futures and options data of all brokers and investors in various PSBs shares.

While the purported letter was soon found to be fake, the regulator and the exchanges are looking into trade details of various bank stocks to ascertain whether any manipulative activities took place, officials said.

Details would be also sought from telcos and internet operators, if required. A day after the circulation of the letter, NSE clarified that Sebi did not issue any letter and it did not receive any such directive.

Further, it requested trading members to advise their clients to remain cautious on such unsolicited letter being circulated by unregistered and unauthorised entities.

— PTI

reforms," said Assocham.

It said that there were reports about banks clamping down, certain impractical rules and procedures for trade finance, affecting both importers and exporters.

"The letters of credit or letters of undertaking are an internationally accepted system of global trade. While we need to ensure safe and sound functioning of the system and, not allow loopholes like those in the PNB system of money or guarantee transfer, let banks not over-react and hit the trade and industry," it said.

Assocham urged the finance ministry and the RBI to send strong messages across different stakeholders about the robustness of the Indian financial sector, giving, though a tough warning against offenders. "By all means, punish the offenders at a fast speed and set examples; but the business should not be allowed to halt," it added.

BANKS MULL HIGHER COVER AGAINST EMPLOYEE FRAUD

New Delhi, Feb. 25: Rattled by a spate of frauds in the banking sector, lenders are now planning to increase insurance cover against delinquencies by their employees to protect their bottomlines.

"Frauds of such magnitude and scale — PNB fraud ₹11,400 crore and OBC fraud ₹390 crore — has forced us to consider substantially much higher risk cover than the basic banker's indemnity policy which various banks have right now," a top official said.

Besides, tightening internal risk mechanism and vigilance, banks have to look for higher cover to guard against such fraud where employees are involved, the official said, adding, this will help insulate the balance sheet.

PNB had only bought a basic banker's indemnity policy, which covers employee fraud, to the extent of ₹2 crore which would not cover even 0.2 per cent of ₹11,300 crore fraud done allegedly by Nirav Modi, Mehul Choksi and his associates in connivance with officials of a Mumbai branch. Soon after this, a case of alleged swindling of ₹390 crore from Oriental Bank of Commerce was registered against a diamond jewellery exporter.

With faith on their internal audit system and risk management, banks were not keen for higher cover but a series of frauds have compelled them and in the Indian Banks' Association meeting also the issue came up for the deliberation, an official said. — PTI

