PNB Fraud Story & Who is Nirav Modi? - GK Notes for Banking Exams in PDF

Bank fraud is a criminal act that occurs when a person uses illegal means to receive money or assets from a bank or other financial institution. Bank fraud is considered to be a white-collar crime. Recently, a major scam in the banking sector sent shock-waves across the nation. It was none other than the Nirav Modi PNB Fraud Story. Read the article, to know in detail about the types of Bank Frauds, who is Nirav Modi, What happened in the PNB Scam along with other facts & ideas. Knowing the details of this Bank Fraud Case might help you in your preparation for various Bank Exams.

Before, you read all the details of the PNB Fraud Story, it is essential that you know the various types of Bank Frauds!

PNB Fraud Story - Types of Bank Fraud

The major bank frauds are as described below:

- **Bank Impersonation**
  - one or more individuals act as a financial institution, often by setting up fake companies, or creating websites, in order to lure people into depositing funds.
- **Stolen Checks**
  - fraudsters may obtain jobs that provide access to mail, such as the post office, mailbox stores, a tax authority, or corporate payroll company.
- **Forgery**
  - forgery occurs when a person alters a check by changing the name or some other information on the face.

- **Fraudulent loans**

  - an individual who takes out a loan, knowing that he will immediately file bankruptcy, has committed bank fraud.

- **Internet Fraud**

  - as it relates to bank fraud, internet fraud occurs when someone creates a website for the purpose of posing as a bank or other financial institution, to fraudulently obtain money deposited by other people.

> ### *Nirav Modi and the $ 1.77 billion PNB fraud*
>
> Punjab National Bank (PNB), the country's second-largest public sector lender, is now in the middle of Rs. 11, 400 crore transaction fraud case.

⇒ On one morning, **PNB informed the BSE** (Bombay Stock Exchange) that it has detected some **"fraudulent and unauthorized transactions"** in one of its branches in Mumbai to the tune of $ 1771.69 million (approx.). Following the announcement, the share price of the state-owned bank plunged 10%

⇒ Meanwhile, the Central Bureau of Investigation **(CBI) received two complaints from PNB** against billionaire diamantaire Nirav Modi and Jewellery Company alleging fraudulent transactions worth about **Rs. 11, 400 crores**, the Press Trust of India reported. This is in addition to the Rs. 280 crore fraud case that he is already under investigation for, again filed by PNB

⇒ **Nirav Modi**, the billionaire in the middle of this controversy, is a luxury diamond jewellery designer who was ranked #85 in the Forbes list of India's billionaire in 2017.
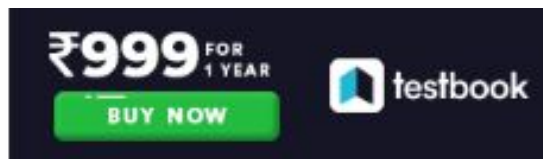
⇒ He is the founder and creative director of the Nirav Modi chain of diamond jewellery retail stores, and is the chairman of Firestar International, the parent of the Nirav Modi Chain, who has stores in key markets across the globe.

> ### *Nirav Modi - Jewelry Designer?*
>
> His designs have been worn to the Oscars by 'Hidden figures' star Taraji P. Henson and to the Golden Globes by Dakota Johnson, among others. Actor Priyanka Chopra is the brand ambassador.

PNB Fraud Story - The Modus Operandi

- In a statement issued to stock exchanges, PNB said it has detected some "fraudulent and unauthorized transactions (messages)".
- **A stock statement** is a business statement that provides information on the value and quantity of stock related transactions. It details opening and closing balances for transacted items as well.
- According to the complaint filed by PNB with the CBI on January 28, the fraudulent issuance of **Letters of Undertakings (LOU)** was detected at the Mid Corporate branch, Brady House in Mumbai.

Differences between SME, Mid-Corporate and Large Corporate Bank branch?

- SME branches focus on credit limit up to Rs. 5 crore
- Mid Corporate branches give credit up to Rs. 50 crore

- Large Corporate branches have large credit exposure of major corporate clients with a credit limit of Rs. 50 crore and more
- SME and Mid Corporate branches are headed by AGM
- While, Large Corporate branches are headed by DGM and above, depending on Bank business

What is Letter of Undertaking?

- It is a contract to perform the promise, or discharge the liability, of a third person in case of his default.
- InterBank
- High Provisioning
- High charges to customer
- Buyer credit is a short-term credit available to an importer (buyer) from overseas lenders such as banks and other financial institution for goods they are importing.

PNB Fraud Story - What actually happened?

⇒ A set of partnership firms – **Diamond R US, Solar Exports and Stellar Diamonds** – approached the bank on January 16 with a set of import documents and requested for Buyer's Credit to make payments to overseas suppliers. The firms have **Nirav Modi**, his brother **Nishal Modi**, Mr. Nirav's wife **Ami Nirav Modi**, and **Mehul Chinubhai Chokshi** as partners.

⇒ As there was no sanctioned limit in the name of the firms, the branch officials requested the firms to furnish 110% cash margin for issuing the LOU for raising the Buyer's Credit. At this time the firm contested that they have been availing this facility in the past, but the branch records do not corroborate this.
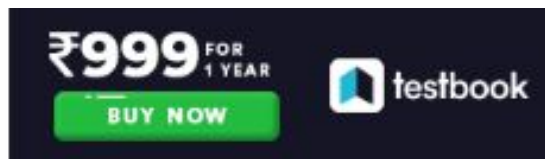
⇒ Shetty, a former deputy manager at the Punjab National Bank, and Manoj Kharat, have been described as the "**single window operators**" of the scam that is now being billed as the biggest in India's banking history.

⇒ On digging further, the bank officials discovered that two of its employees had fraudulently issues LOUs in the past without following prescribed procedures and approvals. The employees had then transmitted **SWIFT** instructions to the overseas branches of Indian Banks for raising Buyer's Credit without making entries in the banking system to avoid detection.

PNB Fraud Story - What is SWIFT code?

≡ SWIFT stands for **Society for Worldwide Interbank Financial Telecommunication code**. It is an internationally – recognized identification code for banks around the world. SWIFT codes are most commonly used for international wire transfers and are comprised of 8 or 11 alphanumeric characters. The **International Organisation** of **Standardization (IOS)** was the authoritative body that approved the creation of SWIFT codes

≡ The complaint also said that the funds so raised for the payment of the Import Bills have not been utilised for such purposes in many cases. As per the FIR, five of the SWIFT messages (SWIFT is a messaging network used by financial institutions to securely transmit instruction) were issued to Allahabad Bank in Hong Kong and three to Axis Bank in Hong Kong

PNB Fraud Story - What Now?

≡ One of the worrying aspects of the scam is that in its statement, PNB says that based on the fraudulent transactions, other banks appear to have advanced money to the

customers abroad. It goes on to add that these transactions are contingent in nature and any liability arising out of these on the bank will have to be decided based on the law and genuineness of underlying transactions.

≡ However, the Rs. 11, 400 crore scam comes at a time when the central government is attempting to provide a breather to ailing PSBs, having announced a Rs. 2.11 lakh crore capital infusion to the sector in October 2017. For this year PNB will receive Rs. 5, 473 crore as capital infusion from the government through a mix of recapitalisation bonds and direct infusion

So, these were all the little details of the PNB Fraud Story. Know about more such GK Articles on Financial Awareness by clicking on the links below!

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