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## Shadow Game or a Perfect Financial Crime: What Nirav Modi did to PNB

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### **Abstract:**

*Financial Crimes are the fire that has not let off any media platform and are giving jolts to every economy in the world. India in the South Asian Pacific is not an exception to it. The loss to the economy is in Trillion Dollars and is growing daily with a multiplier effect. Several preventive measures have been developed and still in process. One of being Fraud Triangle. The authors in paper have tried to study the Role of Financial Frauds of Nirav Modi in India and tried to analyze what it was like and how it affected the economy and raised a question against the working of the bank. The authors have tried to study how the fraud surfaced and how it was in the news. The fraud triangle can be helpful in it or no. How Nirav Modi was able to pull off such a big fraud and what were the loopholes which pulled it up and how was it unearthed.*

**Keywords:** Financial Crime; Financial Fraud; Fraud Triangle; CBI; PNB.

### **Introduction:**

Financial Crimes imposes a huge Social and Economic cost on firms and society. When broken in subparts and studied specifically for the economic losses, which are resulted by the same are studied under Financial Frauds. Fraud is described broadly as “an illegal act or series of unlawful acts dedicated using the non-physical manner and with the aid of concealment or guile to acquire money or assets, to keep away from the payment or lack of money or belongings, or to accomplish enterprise or non-public gain” (Edelhertz, 1970, pp. 19–20). Fraud is the act committed by an individual by means of character for the aim of having advantages, keeping off obligation, or causing

monetary or non-monetary loss to another party (Ruin, 2009). According to KPMG (2013), the common organizational frauds relate to the instances of the duplicity of assets, misrepresentation of monetary statements, theft of funds, and corruption, in addition to computer-associated, identification, customer-associated, and deliver chain frauds. The upward push of fraudulent occurrence is a severe challenge for potential investors as fraud creates a massive lousy impact on the organization's recognition as well as the market cost (Hogan et al. 2008).

The Studies made in white-collar offenses was executed initially from one of the theories between differential affiliation theory (Piquero et al., 2005; Nicholas, 2000; Benson, 1985; Sutherland, 1939; Clinard, 1990) or social shape and pressure theories (Zahra et al., 2007; Durkheim, 1965) for enlightening illegal conducts. The Liew et al. (2011) labeled that these are reasons for fraud occurrence in phrases of group motivation, wherein the best rank is creative reasons, which include cynical internal manipulation, poorly implemented ethical practices, and a lack of control to manage with the aid of administrators. Ziegenfuss (1996) proposed a new fraud triangle principle for including ethical fee implication as an outcome to the worker fraud.

Financial fraud is a crucial hassle for external auditors due to the arising felony liability from the failure to stumble on false economic statements and the feasible harm to expert reputation due to the public's dissatisfaction. Over the past decades, several foremost corporate scandals incurred in the United States, consisting of Enron Corp., Tyco, and WorldCom Inc. The 2005 biennial survey of greater than 3000 company officers in 34 countries, performed utilizing PricewaterhouseCoopers (PwC), reveals that increasing economic fraud cases were discovered and stated, as evidenced by using a 140 % growth in the observed number of financial misreporting (PricewaterhouseCoopers 2007).

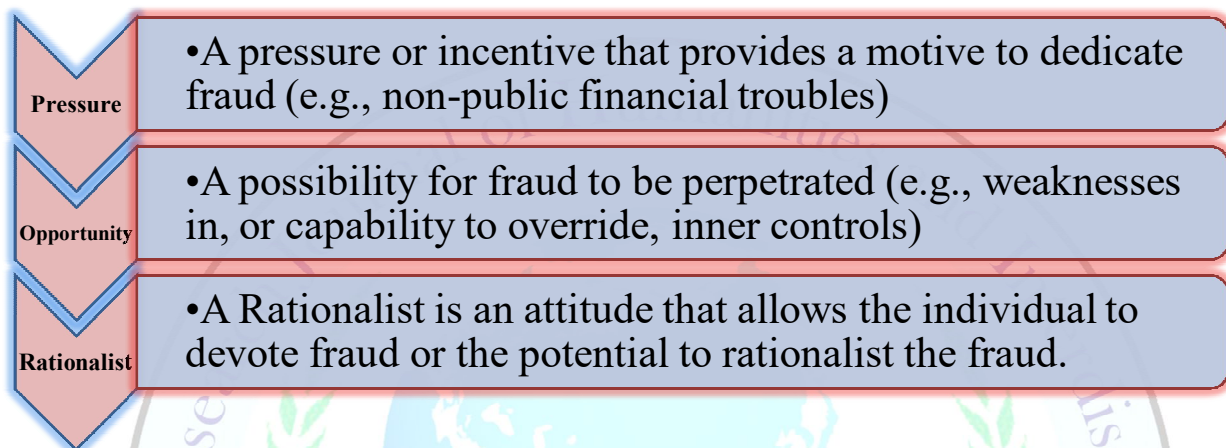
The concept of "Fraud Triangle" was conceived. It has its beginnings in criminologist Donald Cressey's (1953) book entitled *Other People's Money: A Study in the Social Psychology of Embezzlement*. In this seminal text, Cressey (1953) identified the not unusual traits shared via individuals serving time in jail for embezzlement.

### **The Fraud Triangle:**

The well-known Cressey's fraud concept that has been conceptualized as the "fraud triangle" is the one that was initially used to estimate the frauds. Although it has been supported by many persons that are using regulators, critics together (Albercht et al., 1984; Wolfe & Hermanson, 2004; Kranacher et al., 2010; Kassem & Higson, 2012) have insisted that this concept may not be appropriate for use as a tool for deterring, fending & gazing off frauds. Several studies have highlighted the reasons that set off people to dedicate fraud, all of which might be related to the foundations inside the fraud triangle. Wolfe and Hermanson (2004) argued that the version on my own is inadequate to deter, save you, look into, and stumble on fraud.

The vital thrust of fraud studies has been the development of frameworks designed to save individuals a perspicacious version of fraudulent behavior. The dominant framework referring to fraud is the so-referred to as 'fraud triangle,' which is embedded in professional auditing requirements around the world (IAASB, 2009; PCAOB, 2005).

The fraud triangle accommodates three conditions which might be argued to be gift whenever fraud occurs:



Bressler and Bressler (2007) agreed that now not everybody who possessed motivation/strain, possibility, and rationalization can also devote fraud because of capability. Albrecht, William, and Wernz (1995) opined that capability is mainly vast for massive-scale and lengthy-term fraud, whereas employee-fraud is regularly "road-stage," small- scale, and short-term fraud. By assessment, Sens, as cited in Beckley (2002), stated that functionality is a possibility that employs the idea of freedom as a "real possibility." Therefore, integrating religiosity into the fraud triangle will offer a new and powerful version.

The fraud triangle is a useful framework to combat fraud. But one of the limitations to justify the fraud triangle is the various loopholes that are found in it (Huber, 2017; Lokanan, 2015; Morales et al., 2014). Huber (2017) cited that the fraud triangle as it becomes conceived and disseminated with the aid of the anti-fraud career is "misused, abused, contorted, stretched out of form and pressed into usage for which it turned into in no way supposed."

Hence, the fraud triangle isn't always an ok tool for detecting fraud. Fairclough's (1992, 1995a, & 2003) version of vital discourse analysis ("CDA") and argues that the fraud triangle endorses a frame of understanding that lacks the objective standards required to cope with every incidence of fraud accurately. One key emphasis is the body of expertise recommended via the ACFE that pals who commit fraud have moral problems (Morales et al., 2014: 177; additionally, see Albrecht & Albrecht, 2004: 5). The ACFE's discourse conceptualizes fraud as a bent act perpetrated through an individual



for private enrichment (Wells, 1997: three-6). By this definition, fraud is rooted in the man or woman's frail morality (now not as an impact of broader societal influences), which requires surveillance efforts to be geared towards man or woman ethics utilizing the corporation (Morales et al., 2014: 177).

Max Weber's (1947) paintings on organization depict that banks are rational, aim-oriented actors, and they only have a motive to build up capital and maximize income (Free, Macintosh and Stein 2007; Matthews 2005; Murphy, and Free in 2016; O'Connell 2004). Executives and buyers, on the other hand, have fetishisms for cash, and they don't see anything incorrect in deviating from their fiduciary responsibilities and may be complicit in fraudulent conduct (Crumbley et al., 2017; Vaughan and Finch 2013).

Here, one needs to pause and ask whether or not the banks that have been involved inside the various frauds that have been blocked or threatened from reaching their monetary targets, or was it an actual or perceived industry-wide hazard that, due to the fact they had been under monetary pressure, they stood to lose a vast sum of money.

Over the years, the need and importance of accounting in organizations have increased tremendously, and so is the frequency of frauds related to it. Manipulation and misuse of the rules and regulations related to accounting to a point where they lose meaning have become a common practice. Accounting fraud differs from different frauds in that it is devoted generally utilizing control to misinform financial assertion users. In contrast, misappropriation of belongings is devoted towards an entity, most usually utilizing personnel (Guy & Pany, 1997: 4). Accounting fraud is the intentional, fabric misstatement of financial statements or financial disclosures or the perpetration of an unlawful act that has a direct material impact on the economic statements or financial disclosure (Beasley, Carcello, Hermanson & Neal, 2010: 7).

The category of an act being fraudulent may depend upon the motivation in the back of it (Brennan & Hennessey, 2001:61). It may start small (KPMG, 2004), in regions which incorporate ambiguities or permit opportunity ways to file the operations of an entity. For instance, any depreciation method that systematically and rationally allocates the price of the asset over its useful lifestyles is allowed by accounting requirements. Management may exploit any such flexibility to give a financial picture that meets their financial objectives as opposed to the monetary facet of the company's transactions. Most accounting fraud schemes involve "earnings management," which does no longer invariably involve outright violations of accounting requirements. Extra often than now not, entities manage earnings by selecting accounting guidelines that bend the accounting policies to acquire earnings targets. Thus the dividing line among profits management, which does now not violate accounting regulations/standards and "income manipulation," which amounts to fraudulent accounting, is slim.

Although Banking Frauds have existed for a long time now, at times, immemorial and superficial scraping of the most useful research that can display the conspiracy and its effects. A strive has been made to give a short assessment of past research that has oblique relevance to this and understand the shortcomings of the current standards. The same has been done to provide a glimpse of work done at the research related to the performance of non-acting property. Statement on Auditing Standards No. 99 notes that three aspects of the fraud triangle can be generally observed when the fraud occurs. There is a significant amount of studies focusing on the characteristics of fraud firms, providing the analytical support for the fraud triangle classifications and creating a list of Bred flags used in both SAS No. 82 and SAS No. 99 (Hogan et al. 2008). These results have been widely used by professionals as a useful theoretical model and reference to explain why most frauds occur (Farahmand, and Spafford 2013). However, only very few of these prior studies investigate all aspects of the fraud triangle.

### **Literature Review:**

Kaveri (1996) researched on Recovery from Non-Performing Advances. The banks must retain to address NPAs on a conflict footing, even though there are tribunals or no tribunals. In this regard, some of the banks have installation unique “recuperation branches” while different banks have continued the efforts through the existing branch retailers. The restoration department with essential information and infrastructure is anticipated to affect quick recovery. Interviewing a borrower, on the time of credit sanctioned should be given special importance. It can be ensured to elicit the necessary records about the managerial competence, professional historical past of an entrepreneur, planning, budgeting and manage gadget, selection making system, improvement of staff, and so on.

Subbarao (2003) performed a look at Is Securitisation Ordinance minimizing NPAs or is enhancing the earnings of PSBs utilizing decreasing NPAs. He studied the existing NPA cognizance gadget, the role of Debt Recovery Tribunal, which deals solely with the bad loans of the banks and monetary establishments. He discovered that the Debt Recovery Tribunal did not come up with the money for enough assist to banks/FIs in their restoration attempt. His look at got here out with an end that Indian banking has to attain profitability at a global level even as the most critical condition to improve the profitability is discount inside the degree of Non-Performing Assets (NPAs). NPAs must be dealt with strict enforcement of prudential norms and necessities of transparency. The prison motion and healing method must be made effective with opportunity movements similar to Debt Recovery Tribunal, Lok Adalats, Securitisation, and Asset Reconstruction Companies.

Anonymous (2007) researched on Management of Non-Performing Assets (NPAs) in the Urban Cooperative Banks (UCBs). It took a look, which covered the effect of NPAs on profitability, capital, and liquidity. The study additionally covered the steps for stopping NPAs, the detecting

indicators, and steps in decreasing NPAs. The observer concluded that control of NPA is the want of the hour. To be effective, NPA control must be an exercising pervading the whole bank from works Broad down the last degree. Time is of prime essence in NPA management. The route open to the banker is to make sure that an asset does now not turn out to be NPA. If it does, he should take essential steps for early restoration, failing which the profitability of the financial institution will be eroded. That can trigger other troubles to undermine the bank's economic situation.

Aravanan and Vijayakumar (2007) captured the non-appearing asset state of affairs of an indefinite ban in his article approximately non-acting asset-unavoidable but not unmanageable. The observed blanketed various ratios and tools and combined them to construct a benchmark machine for NPA management of banks. That Indian banking has to achieve profitability at the international stage while the most crucial circumstance to improve the profitability is discount inside the degree of Non-Performing Assets (NPAs). NPAs need to be treated with strict enforcement of prudential norms and requirements of transparency. The criminal action and recuperation procedure have to be made compelling with opportunity movements similar to Debt Recovery Tribunal, Lok Adalats, Securitisation, and Asset Reconstruction Companies.

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Choudhary and Tondon (2011) analyzed the overall performance of commercial banks in India in the course of post-liberalization. The result confirmed that every bank had proven the decline in NPAs in which boom has been depicted in the capital adequacy ratio. Public quarter banks



have already sacrificed a whole lot of their profits for the success of social objectives.

Hosmani and Hudagi (2011) examined the topic unearthing the epidemic of Non-acting assets with regards to the public quarter in India and determined that there's a slight improvement in asset excellent meditated via decline within the diverse NPA percent.

Prasad and Veena (2011) studied approximately NPAs reduction techniques for commercial banks. The look at geared toward expertise, the concept of NPAs, its significance, and important reasons for an account becoming non-acting and techniques for handling NPA in Indian banks. The Indian banking zone is going through critical trouble with NPA. The magnitude of NPA is comparatively higher in public area banks. To improve the performance and profitability of banks, the NPA wants to be decreased and managed. Reduced NPAs offer the impact that banks have bolstered their credit appraisal methods through the years, and boom in NPAs includes the necessity of provisions, which deliver down the general profitability of banks. They concluded that the problem of NPAs could be achieved simplest with proper credit score assessment and risk management mechanism. In a situation of liquidity overhang, the passion of the banking system to growth lending may additionally compromise on asset best, elevating issue approximately their unfavorable selection and ability chance of adding to the inventory of NPAs. It is vital that the banking gadget is to be equipped with prudential norms to limit if now not absolutely to keep away from the trouble of NPAs.

Aggarwal and Mittal (2012) conducted a study on Non-Performing Asset: Comparative Position of Public and Private Sector Banks in India. They have a look at changed into to evaluate the operational performance of the selected PSBs & Private financial institution in India, given that 2001, NPAs Trends and troubles via secondary statistics. This paper analyzed how correctly Public and Private region banks have been dealing with NPA. All the Indian banks are going through a tough time handling their NPA. The magnitude of NPA changed into comparatively better in public sector banks in comparison to non-public banks. Still, now, they have managed the quantity at lower give up.

Kumar and Singh (2012) analyzed approximately the mounting NPAs in Indian business banks. They studied approximately the factors contributing in the direction of the trouble of non-acting assets from pinnacle public areas in India and the measures required for management of NPAs like reformulation of banks credit appraisal techniques, established the order of tracking department and so forth. They discovered that the principal cause of a high percentage of NPAs is a target-oriented approach, which deteriorates the qualitative aspect of lending. NPAs positioned an adverse impact on the profitability, capital adequacy ratio, and credibility of banks. The paper highlights the maximum massive elements contributing closer to the trouble of non- appearing property from the factor of view of pinnacle free zone banks in India, a few overseas banks and the measures required

for management of NPAs like a reformulation of banks' credit score appraisal strategies, status quo of monitoring department and so on.

Balasubramaniam (2013) carried out a take a look at on Non-Performing belongings and profitability of business banks in India: Assessment and emerging problems. This paper assumes significance with the recent thought by way of RBI to introduce Basel III norms in the banking quarter from January 2013. Basel III framework of recommendations formulated with the aid of Bank for International Settlements (BIS) in consultation with imperative banks operating in some of the nations all around the international count on the participating banks of their respective economies to be following ethical financial and operational control rules.

Shalini (2013) performed a study on reasons and treatments for non-appearing belongings in Indian public quarter banks concerning the agricultural development branch, State Bank of Mysore. The paper makes a try to examine the impact of different variables at the non- appearing farmers, as the principal objective of the look at is to understand what are the problems faced by way of Indian farmers in paying lower back the borrowed amount with regular payment of interest. Chi-square analysis check is used in the have a look at to recognize whether or not these variables affect the non-price of the hobby. She concluded that bankers could keep away from sanctioning loans to non-creditworthy debtors utilizing adopting positive measures.

### **Introduction:**

As seen in the many frauds that India has seen in recent decades, the frauds are mostly committed by White-collar employees or the CEO of the company. White-collar crimes are committed by using people who have the knowledge and the power of how the standards can be manipulated so that personal economic gain can be achieved. There are various varieties of white-collar crimes in techno-increase society. Some of them are as follows:

- 1. Tax Evasion:** It is one of the most, not unusual exercises of white-collar crimes. Business tycoons and other wealthy personalities continuously try to get away from taxation liabilities. Professionals like docs, engineers, attorneys, investors, which includes contractors are commonly taking pleasure in it because it's far hard to recognize the precise income of those professionals.
- 2. Computer Frauds:** These are crimes where hackers thief laptop information like bank facts, proprietary information, and credit card information.
- 3. Credit Card Fraud:** Technological advancement made it clean to steal the credit card statistics of someone else, and an unauthorized man or woman can avail the centers of the same card illegally. Bank Frauds: White-collar criminals try and defraud the bank funds, and they involve such practices to defraud the financial institution funds.



4. **Educational Institutions:** These are also the places in which white-collar crimes are nurturing at an excellent Pace. The educational institutions are capable of Committing such crimes as a massive amount of cash obtained via authorities presents and financial aids; however, establishments pay a small number of salaries to the personnel in the vicinity of what the promise is made to them on the time of their appointments. Students are charged to pay high fees and in go back underneath preferred facilities are provided to them.
5. **Cellular Phone Frauds:** It is indicating closer to the unauthorized use, tampering, and manipulation of cellular phone offerings. These practices are done with the help of a stolen cell phone or wherein the performer plays beneath false identification or a clone is ready with the assistance of legitimate electronic serial range through a digital serial comprehensive variety reader and reprograms any other cell phone with the assist of a valid electronic serial quantity.
6. **Rackets:** Rackets are a form of enterprise operations run illegally to reap the non-public blessings. Legal Profession: It is a profession that is also several professions where it will become challenging to pick out the actual source of precise earnings of felony specialists. There are numerous times like fabricating fake proof, related to expert witnesses, violation of moral requirements of the criminal profession, and the use of strategies to get hold of favor by using the ministry as nicely pointing in the direction of practices of white-collar crimes in prison career.
7. **Medical Profession:** Large numbers of white collars crimes are an exercise in this career within the name of faith. They may be dishonest with the lives of humans.

### History of Frauds in India:

What I care approximately if my cash is at ease with those so-called “too massive to fail” list holders. While PNB is yet to make it to this listing, it’s nevertheless the second-largest public-sector economic organization. Also, why is it that such scams arise again and again? Every rip-off, a committee is customary, and evaluations are submitted to the worried ministry, and it all vanishes within a span of a few months. Why come to be Harshad Mehta in a role to pull of a notable heist in 1992 with plenty of forged documents that even the RBI couldn’t come across? Is scam fee the kingdom ₹4000-4500 crore and guess what, the whole gang nonetheless walked away with 1000 crore. Harshad’s brother-cum-legal professional, Ashwin Mehta, later made a social assertion which says, “Please don’t worry... I’ll return all of your money. Even if paying you all, I’ll have a bit over ₹1,000 Crore to take home”. Is the sum changed into a lot more significant in phrases of really worth in 1992 than what it's miles today? Not that this quantity became virtually paid case become eliminated while Harshad died in 2002. Is list isn't always going to quit here. Curious readers can go on digging into instances of Winsome Diamonds and Jewellery Ltd, wherein they controlled to divert

about ₹7000 crores. Rajrishi Singhal points out a fascinating fashion in his article on [livemint.com](http://livemint.com), each Jatin Mehta (Winsome Group promoter) and Nirav Modi have to grow to be citizens of Saint Kitts and Nevis Islands inside the Caribbean.

Frauds like 2G rip-off and count, this case may even fall apart. Agencies are making noise inside the media; however, they will now not be able to show the prices in a Court of Law.

### **PNB BANK (Facing the most Frauds of Recent Times)**

Banks had been considered as a spine to the economic gadget and played a crucial position in the economic improvement of a nation. Banking in India had originated in the 18<sup>th</sup> century, with The General Bank of India getting into life in 1786. Punjab National Bank Ltd Is an Indian economic offering's organization based totally in New Delhi, India. Founded in 1894, the bank has over 6,300 branches and over 7,900 ATM s across 764 towns. It serves over eighty million clients. Punjab National Bank Ltd. PNB is one of the Top Four banks in India. As one of the targets changed into enhancing the efficiency of the banking sector in the Indian economy, many steps have been taken into consideration. Still, the other side of the coin has immersed with the more development of our banking sector.

The Punjab National Bank is one of the oldest State-owned, Multi-National Banks and uses CBS. Core Banking Solution (CBS) is a software product that links all the customers of a bank, regardless of their home branch. The primary objective of CBS' is to centralize every detail of financial transactions that are made in the bank and maintain a universal database of the credit history of customers of individual branches.

Unfortunately, this MNC bank has the maximum wide variety of mortgage fraud instances mentioned against it, over the last many years. For individuals who do not recognize, PNB is the most effective Indian Bank that changed into started with Indian Capital and nevertheless surviving till at present. The ultra-modern mortgage fraud turned into was found, and this involved well-known diamond traders, leader of them, have been Nirav Modi and Mehul Choksi. The PNB fraud turned into not anything; however, a roll-over of credit score taken on the premise of a fraudulent LOU. They are Nephew- Uncle Diamond merchants of global fame. Nirav Modi is the founding father of Nirav Modi's worldwide diamond jewelry residence, and Mehul Choksi is the pinnacle of Gitanjali Group, a retail jewelry agency. On 14 February 2018, PNB intimated the stock exchanges that the fraud quantity became ₹11,394 crores (S\$2.34 billion) and added that the parent should similarly upward push. Several factors are of notice inside the PNB scandal. The first is the lack of internal controls and techniques in PNB, which allowed for the repeated infringement of policies for a length of 7 years without it being detected. It seems unbelievable that department-level officers with restricted powers should have perpetrated any such major fraud at the banks without the expertise of the higher control of the bank. And if indeed, the higher control turned into unaware of

what become occurring, it speaks of terrible managerial supervision and manages. The duo amongst another circle of relatives' members fled the country and are in New York, USA. Criminal investigations are underway against them, but now not a whole lot has surfaced inside the previous couple of months.

The PNB Fraud is a case of an adequately oiled Ponzi scheme by using nicely-heeled fly-through-night operators. Its negligence speaks very lowly of the Banking System Reconciliation and Compliance procedures within the U.S.A. RBI should be proactive in proudly owning up the guilt and need to put in a new framework of tests and balances to make sure that the sanctity of the organization isn't abused. The Core Banking System (CBS) has been compromised in a big way to ensure there aren't any high-stage signals.



The function of the auditors. The bank bills are audited via an impartial auditor periodically, and there's also a mandated due diligence check. Again, it's far unexpected that the matter remained undetected for more than seven years. The regulator must virtually have noticed non-stop foreign exchange outgo of over US\$2 billion (S\$2.Sixty-five billion) over this period, without receipt of export earnings. The RBI has been remiss in its regulatory oversight. The final is the bigger question of whether that is a remote case, or whether or not different such scams are lurking someplace else in the Indian banking system. There are also troubles of LOUs with Gitanjali gems, a relative of Modi, in addition to some other company which manufactures ballpoint pens. The worry is that numerous different scams are waiting to be located. It is exciting that a number of those relate to free zone banks wherein the Indian authorities have a majority and appoints the management. Public zone banks were reeling below the weight of non-acting property that relates to loans given to initiatives, that have now not been repaid, either because the tasks have not been completed as scheduled, or



wherein the promoters have taken away a vast a part of the price range. Such scams would upload to the load of the banks' contrary capital adequacy. The problems that are surfacing relate to an underlying malaise within the publicly-owned banking system in India, and that institutional oversight has time and again failed to locate misdemeanors. The reasons might be several. There is proof of corruption in several elements of the banking system, whether or not in granting loans to ineligible borrowers or in circumventing systems and techniques to keep away from detection. The frustration of the general public is that far too few of the culprits are added to e-book and punished, as organizing a conspiracy that consists of the higher reaches of management and, perhaps, their political masters is not smooth. The culprits who're affixing the final approval are not always the ones accountable – they're probably acting on illegal commands.

The sudden point is the rapidity of the deterioration. Until 2004, there had been very seldom incidents wherein banks were informed through their political masters to miss due diligence – there may be enough evidence that this has been at the boom after 2004. The laxity has spread via the device. There has been harm to the photo of the banking and commercial enterprise systems, and the shares of PNB have fallen by way of extra than 20 percent. The practical point is that there are sturdy systems in location. These mechanisms consist of everyday internal audits in addition to periodic audits by the RBI. All forex exposures are expected to be said to the RBI frequently, and the machine is geared to throw up open (exposed) exposures. This is similar to statutory audits and oversights by using the Board of Directors. Once the government cracks the whip on adherence, the corrective mechanisms will healthy into the location to save you further incidents. The RBI has to take the lead on this. The PNB stability sheet is pretty robust, as it is one of the few banks with a significant rural presence in Punjab, in which there are a whole lot of depositors – each from agriculture as well as from the remittances of distant places employees. There is little danger to the financial institution or the banking device. However, the PNB scandal is a name to the Indian authorities and the regulators to get their act together.

PNB blamed overseas branches of some Indian banks claiming that the LOUs were extended to 360 days on some activities while the RBI had made it very clear in its pointers that credit for import of valuable stones must no longer be closed for more than 90 days. E banks must have been alarmed as soon because the credit score period crossed ninety days. So, did Nirav Modi and the institution bribe the bank officials to hold mum at the complete depend? I am as curious as you're to understand solutions to these questions. E authorities, as traditional, condemned the rip-off and pledged to deliver Nirav and other accused humans of justice. Union Finance Minister even questioned the ethics of enterprise within the country and talked hard on the banks. Ere has been too much of “Kadi Ninda” (Strong Criticism) within the beyond as nicely, but what the government(s) have to do is to take “Kade Kadam” (Strong Steps) in opposition to these frauds, and banks

(especially public-region ones) ought to make sure they truthfully conduct audits, now not beneath them in defense of rewarding “offers” from Modis and Mallya's.

When an organization of Satyam's statue collapses, whose foremost customers include clients from the US and UK, it brings down the price of Indian Rupees as exports are also decreased. On January 07, 2009, \$1, which was equal to INR 48.735, reached INR 51.130 with the aid of March 20, 2009. Post PNB scam also, the rupee is devaluing and has reached INR 65.1/2 as of March 06, 2018, which changed into soaring around 63-64 in January and early February.

Within the first week of any such fraud, domestic, in addition to overseas investors, move on lengthy hibernation earlier than they begin trusting the market again. Similar aspects befell to Kingfisher airways, PNB, and Gitanjali; once the fraud came to the know-how of the marketplace, their proportion prices fell, and enterprise also suffered. The exciting aspect right here is that folks who are at once affected by the scandal begin aggressively investing to recover the losses. In contrast, folks that were not immediately affected stopped investing for a while. The most significant threat the marketplace faces is losing a good deal wanted FDI all through an industry. After the Satyam scandal, Americans day by day, the New York Times stated. "The scandal threatened to gobble up no longer simply Raju, who resigned, however his corporation, Satyam Computer Services. Far past Satyam, it raised fears that similar issues might lurk in different Indian organizations, especially in its vaunted outsourcing industry."

Nirav Modi, trying to import diamonds to design a high-cease series, approached PNB for funds to import the diamonds. In an ordinary case, the bank might offer a Letter of Undertaking (LOU) to the purchaser that might allow him to raise cash from any other financial institution's foreign branch in the form of a brief- period loan. The foreign branch could offer finances to the client for the charge to his providers in overseas forex. The trader is anticipated to promote the goods and make the bills to the lending financial institution. If he does now not do so, the financial institution that issued the LOU might honor the commitment. Usually, the bank that troubles the LOU would ask for a cash margin, 100 in step with the cent. In Modi's case, there was no scheduled credit score restriction, and no margin changed into demand. The entries in respect of the LOUs issued have been not recorded inside the financial institution's middle banking machine. The LOUs were issued with the aid of the branch officials without the approval of capable authorities and the important documents for import.

According to the guidelines of the Reserve Bank of India (RBI), the purchaser's credit score for the import of gemstones should not exceed ninety days from the consignment date. In this case, they have been rolled over again and again. This went on for an impressive seven years from 2011. An overall of 151 LOUs has been issued until 2017.

In January 2018, the partnership corporations of the Nirav Modi group approached PNB's Brady House department in Mumbai with a similar customer's credit score. The bank officers requested a hundred according to cent cash margin. The firms claimed that they'd, inside the beyond, been allowed cash without margin. PNB intimated the stock exchanges that the fraud quantity become eleven,394 crores (S\$2.34 billion), and added that the figure could see upward thrust similarly.

On 14 February 2018, India's 2<sup>nd</sup> biggest nation-owned lender, Punjab National Bank (PNB), informed the stock exchange government that it had detected a fraud amounting to US\$1.77 billion (S\$2.34 billion) at considered one of its branches in Mumbai. The man within the center of the fraud is Nirav Modi, a billionaire jeweler, who spontaneously left India after the news broke, and now hiding in New York in the United States.

A chief portion of employee fraud instances is discovered in the banking sector. The failure is attributed primarily to employee fraud (Dickens et al., 1989). Employee fraud reduces the confidence of out-of-doors traders and the staleness of the capital marketplace. These times, in turn, have rather impacted the increase and development of the economic system, particularly in growing countries like India (Chen et al., 2013; Rezaee, 2005; Albrecht et al., 2010; Akindele, 2011).

#### Timeline of Nirav Modi PNB Case

January 29, 2018	It started with at the PNB's Mumbai branch when Deputy General Manager AvineeshNepalia, called up CBI and complained about some of the internal officials and doubted their actions and said that they are causing massive loss to the Bank and nearly 8 LOU'S amounting to nearly Rs 280 Crore have been issued for the payment to Hong Kong Banks.
January 31, 2018	Nirav Modi(the celebrity jeweler) being under the scanner of I-T department and the offices of the same in Delhi, Surat, and Jaipur were raided by the Officials
February 5, 2018	After the complaint against the jeweler, CBI charges the billionaire in a multi-billion cheating case. First Information Report(FIR) for criminal conspiracy, cheating, and fraud in contradiction of Nirav Modi, Nishal his brother, wife Ami, and Mehul ChinubhaiChowksi owner of Diamond R and Stellar Diamonds, for causing a loss of Rs 280 Crore.
February 14, 2018	PNB filed a complaint with CBI about Nirav Modi complaining about a multi-billion Fraud. The complaint mentioned nearly about Rs 11000 Cr



	of taxpayer's money, which had been transferred to foreign banks illegally from its Mumbai branch. The bank also quoted that two of its employees are also a part of the crime as they have been violating rules and putting on the illegal guarantee for the documents which were produced by the jeweler.
February 15, 2018	Raids at Nirav Modi's Home, showrooms, offices, and other registered places in Mumbai, Surat, and Delhi. In the raid, ED seized jewelry, Diamond and Gold worth nearing Rs 5100 Cr. Within a week, the accused, along with his family and Uncle, Left the country in January, Informed officials.
February 16, 2018	The continuation to the last complaint bank again approached CBI, providing them with more details and more facts about the transactions which had taken place. The Bank till now had detected nearly 150 Lou's, which had been issued to the borrower and was actually used by him. CBI on the provided information raided Gitanjali Group offices and showrooms, which were owned by the borrower and tried to connect the dots about the information provided against the same by the bank. IT department, in continuation of its previous proceedings, attached 29 properties and 105 bank accounts of the borrower, his family, and other attached firms concerning the tax evasion probe going against him. CBI now approaches Interpol to support them to search and arrest Nirav Modi.
February 17, 2018	After so many collective efforts by different agencies in India now, the government of India comes into action. It suspends passports of Nirav Modi and Mehul Choksi for (only) four weeks after the PNB fraud came into light.
February 18, 2018	CBI now starts the interrogation of PNB Officials and also searched its Brady House Branch in Mumbai, the search was the reason of Rs 11,400 Cr Fraud by Nirav Modi. In continuation of the same CBI arrests PNB's Former Deputy Manager Gokulnath Shetty, Manoj Kharat single window operator, and the authorized signing authority of the group Mr. Hemant Bhat for their role in issuing fake guarantee and laying the loss of the same on the taxpayers.
February 19, 2018	Summons for issued against Nirav Modi's Chief Financial Officer by

	CBI, and seals the Mumbai PNB Branch.
February 20, 2018	<p>A Letter was written by Nirav Modi to PNB Management on 15 Feb surfaced. The letter was a mentioning of facts from Nirav's point of view in which he claimed had the money his company owned the bank was under Rs 5,000/ Cr, and the news and the situation has created a rift in the market which has brought in a situation where it will be difficult for him to pay back the dues in the stipulated period.</p> <p>Vijay Aggarwal, Nirav Modi's Advocate, said that the transactions which have been recorded and whose base the allegations are made by the CBI are entirely wrong and baseless.</p> <p>In continuation of its, work CBI arrested three more employees of the PNB Bank for being involved in a fraud of over Rs. 11,400/- Cr.</p>
February 21, 2018	<p>Vipul Ambani gets arrested by CBI, Nirav Modi's Firm CFO, and two senior management officials also come into the loop and get arrested. CBI, besides, seals the Nirav Modi's Alibaug Farmhouse.</p> <p>Nirav Modi's firms and offices are seized by the Enforcement Directorate, and assets worth Rs 10 Cr impounded. Also, the IT department also attached his 141 bank Accounts and F.D's worth Rs 145.74 Cr. The total of the current assets seized by the ED is worth Rs 5,736/-.</p> <p>Rajesh Jindia, a general manager rank Officer of Punjab National Bank posted in head office New Delhi is arrested by PNB; he was the head of the Brady House branch of PNB During 2009-11.</p>
February 22, 2018	<p>Mumbai's Special court sends Vipul Ambani the president (Finance) of Nirav Modi's Fire Star Diamond into remand along with five others in CBI custody till March 5.</p> <p>ED seized nine luxury cars, including a Rolls Royce Ghost, a Porsche Panamera, Mercedes, and others belonging to Nirav Modi and his company. It also seized investment worth Rs 94.52 Cr in mutual fund and Shares of Nirav Modi and Mehul Choksi groups.</p> <p>A settlement letter was issued to Nirav Modi by PNB, instructing him to come up with a concrete and implementable plan to settle the issue.</p>
February 23, 2018	Nearly 10000 imported watches were seized from several locations of Nirav Modi by ED. Also attaching 21 properties, including a penthouse

	and a farmhouse, of Nirav Modi and his group worth over Rs 523 Cr.
February 24, 2018	Passports of both the accused Nirav Modi and Mehul Choksi were seized.
February 27, 2018	Aailable arrest warrant was issued against Diamond Merchant Nirav Modi by a magistrate court.
February 28, 2018	the Flagship Company of Nirav Modi, Firestar Diamond Inc, applies to bankruptcy in the U.S.  Nirav Modi was Officially asked by the CBI to join the investigation, and an email was sent to him for the same. The reply received by the CBI got that he is not available and can't be a part of the investigation as he has his business abroad also and he is busy over there.

### HIGHLIGHTS OF PNB REPORT:

- PNB record has blamed RBI for lack of supervision. India Today has learned that inside the view of the PNB record, the finance ministry will ask the RBI to restoration duty for the lapse.
- PNB said financial institution officer Gokulnath Shetty become posted in Brady House Branch because of 2010. He was given the first extension in 2013, followed by using greater in mid-2013 and 2015. Shetty did now not take a single break day last 12 months until he retired.
- PNB admitted that rather than clean SWIFT wide variety for every transaction, the same transaction quantity was used for beyond seven years while issuing a Letter of Undertakings to firms linked with Nirav Modi and Mehul Choksi.
- PNB has claimed that fraud became committed in only one among its branches even thoughtwo hundred officials throughout the united states of America had to get entry to SWIFT.
- PNB says SWIFT and CBS aren't related for numerous years due to the fact the financial institution changed into upgrading its software program, Finacle.
- Overseas branched of PNB, the record says, are a drain on the gadget. London department of PNB has reported 70 in keeping with a cent of loans turning into NPAs.
- Highlighting the systemic loopholes in the banking operations, PNB file says the chief executive officials (CEOs) of overseas branches experience unbridled powers concerning sanction or write off loans.



The banking device of any united states incorporates the small financial savings of the people. When a large number of people deposit the cash into banks, it will become a significant amount in the arms of the banks. Commercial Banks lends this money to people, traders, and institutions and earns earnings inside the form of interest. But when these creditors do not go back this quantity to the banks, it will become the Non-Performing Assets (NPA) to the banks, which similarly creates a risk to the life of the banks.

A recent examination published at the IIM Bengaluru in 2016 says that inside the final three years, Public Sector Banks (PSBs) in India have misplaced a complete of Rs. Twenty-two thousand seven hundred forty-three crores, attributable to various banking frauds. As on 31 March 2018, Indian banks, Gross Non-Performing Assets (NPAs), or horrific loans stood at Rs. 10.25 lakh crore. In the area, the NPA has grown with the aid of Rs. 1.39 lakh crore or 16% up from Rs. 8.86 lakh crore as on 31 December 2017.

### Conclusion:

Crimes are along with humans from the very beginning. It has evolved with time and has changed its face with the time and introduction of technology. Though several measures rules and regulations have been laid down, several preventive models for the detection of the crimes have been introduced, but still, the offenders are 1 step ahead. These crimes are not only hampering the growth of the economy, but they also hamper society as a whole. Nirav Modi case is yet another example where the greed of an individual along with the several loopholes available in the system which leadsto the fraud of more than Rs 11,400/- Cr. Thus, not only affected the economy directly but had a lot of socio-economic problems, which lead to a vicious circle of problems for the economy. Thus, it is concluded that this is the right time when strict policies and actions are to be taken up by the legislature in order to control Such Crimes in the future and stopped forever.

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