How watchdogs failed to spot $2b PNB fraud

REUTERS, New Delhi/Mumbai

Gokulnath Shetty, a middle-aged bank manager of middling rank, spent his days in the foreign exchange department on the mezzanine floor of Punjab National Bank's Brady House branch in Mumbai.

It was there, past the loan desk and up a flight of stairs, that the Central Bureau of Investigation (CBI) says Shetty hatched India's largest-ever bank fraud, which the bank values at nearly $2 billion and says was engineered between 2011 and 2017.

The room where Shetty worked was visited on a quarterly basis by external auditors approved by the central bank, who sifted through documents but failed to spot any problem, according to interviews with two bank employees with first-hand knowledge of the department's operations.

In the three weeks since details of the alleged fraud was disclosed, Indian authorities and the media have squarely blamed Punjab National Bank, and a group of high-flying jewellers including diamond tycoon Nirav Modi.

But Reuters has uncovered new evidence that shows the Reserve Bank of India (RBI) also failed for years to either detect the fraud, respond adequately to red flags in the banking system, or correct a breakdown of normal practices at the nation's second-largest state-run bank. The RBI is in charge of supervising lenders and meant to act as the bottom-line guarantor that the banking system is sound.

That heightens worries about what other problems might lurk within India's state-run lenders, which hold some 70 percent of the sector's assets in the world's fastest-growing major economy.

The RBI, presented with a list of findings and questions for this story sent to a spokesman, did not respond. Punjab National did not respond to a similar request.

Shetty's lawyer, Vikram Sutaria, said his client "is not guilty".

Interviews with 12 current and former officials at the RBI and senior executives at some of the country's largest banks, and a review of dozens of pages of internal central bank circulars, reveal a system that in many cases had little hope of catching criminal activity.

The reporting shows:

- The RBI takes a hands-off approach: Its inspections concentrate on whether the broader systems are sound, not the details of what's happening in a particular banking operation.

- External auditors approved by the RBI, known as statutory auditors, in many cases only do top line reviews, not in-depth inspections. In Punjab National's case they have been changed regularly - 18 different firms used over seven years. Though the auditors swapped hand-off notes, no one auditor was able to delve into the bank's operations for any extended period.

- Those external auditors met with Shetty, but their audits of Punjab National published in the bank's annual reports from 2011 to 2017 did not raise alarms.

- The RBI knew by 2016 there was a laundry list of problems at Indian banks that the central bank said "exposed the bank to heightened risk of fraudulent activities".

- The central bank did not compel state banks to link their banking software with the SWIFT global interbank messaging network, a key vulnerability in the Punjab National fraud.

A current senior RBI official involved in the scrutiny of banks acknowledged there were shortcomings.

"This has been going on for six years and nobody pointed it out - not the auditors and not the RBI inspection," he said.

In Punjab National Bank's initial criminal complaint, and then court documents filed in February by the CBI, deputy manager Shetty is accused of having sent letters of undertaking, essentially credit guarantees, over the SWIFT network without logging those transactions in the bank's internal software.

Two internal auditors who sat with Shetty in the branch have also been arrested, among more than a dozen people picked up by law enforcement so far.

Asked about the specifics of allegations against Shetty, who has been arrested but not charged, his lawyer, Sutaria, declined to discuss them.

The alleged beneficiaries of the transactions were companies controlled by Nirav Modi, whose diamond creations have glimmered across the flesh of film stars, and his uncle Mehul Choksi, who also owns a large jewellery operation. Neither man has been charged with a crime. Both are currently outside the country and have denied the allegations.

Two co-workers described Shetty as a socially taciturn man who, after starting the work day by moisturizing his face and hands with Pond's cream, began sipping a seemingly endless series of cups of tea and dialling up customers on his iPhone.

Shetty, they said, declined to show others how to operate the SWIFT system.

"No one would work on SWIFT in his absence," said one of the co-workers. "Even customers used to say if 'Shetty sir' is not around let's not proceed with anything."

Representatives of Modi, the jeweller, would spend hours in the office, sometimes eating lunch there, two employees at the branch said. "It was as if they were bank employees," said one banker who still works in the currency exchange office.

The framework for auditing India's banks is set up to provide three levels of scrutiny: continuous monitoring by internal auditors, quarterly inspection by statutory auditors and an annual inspection by the RBI, according to interviews with officials at the central bank.

The bank's cornerstone internal, or concurrent auditors, are expected to run daily checks on all SWIFT transactions, according to RBI officials.

But a former senior RBI official with direct knowledge of the central bank's oversight of foreign exchange transactions said they often do not provide much of a backstop.

"Sometimes the concurrent auditor just blindly signs whatever is given to him without verifying what is going on," the official said.

Asked about the RBI's annual audit, a current official who previously worked in its supervision division said the central bank has moved away from doing annual branch inspections, instead relying primarily on data from the lender's headquarters.

"Earlier, the branches of banks were at least scared that RBI might catch any malpractice," the official said.

R. Gandhi, deputy governor at the RBI from 2014 to 2017, said the statutory audit process, which is carried out by private accounting firms, was not meant to be comprehensive.

"A 100 percent audit is specified only for high-risk areas," he said.

Explaining the RBI's approach overall, he added:"We are supervisors. The prime objective of RBI's audit should be to see that systems and procedures are there and those are functioning."

New executive director for central bank

STAR BUSINESS DESK

Sheikh Mozaffar Hossain has recently been promoted to the post of executive director of Bangladesh Bank.

Prior to the promotion, he was the general manager of the banking regulator, Bangladesh Bank said in a statement.

He joined Bangladesh Bank in 1988 as an assistant director. Hossain achieved his master degree in economics from Dhaka University.

He also has a master degree in general economics from the Eastern Michigan University of USA and a diploma in project financing from ITC, ILO, Italy.

ERF

Mirza Azam, state minister for textiles and jute; Shykh Seraj, a director and head of news at Channel i, and Saif Islam Dilal, president of Economic Reporters' Forum, attend a roundtable on "Development of jute: What the media thinks" jointly organised by the forum and the ministry, at Cirdap auditorium in Dhaka yesterday. Story on B1

China's economic targets invite promise fatigue

REUTERS, Hong Kong

Delegates at the opening of China's annual political conferences on Monday were invited to apply their well-worn rubber stamps to a retread of 2017's economic plan. Chief economic planner Liu He promised this year's World Economic Forum that his country would surprise foreigners with the aggressiveness of its reforms. Not so far.

China's "two conferences", held every year in Beijing, can seem farcical: empty rituals in which unelected Communist Party delegates happily endorse whatever is proposed, including the recent plan to remove term limits for President Xi Jinping. But the economic targets presented are serious, and Monday's are seriously uninspiring.

For starters, the "around 6.5 percent" GDP target will be rolled over from last year, and broad M2 money supply and aggregate credit provision will keep growing at around 8 percent and 12 percent respectively. That implies limited deleveraging and suggests Xi will waste much of his new strength kicking the metaphorical can even further down the road: a recipe for economic calcification at home and conflict abroad. Xi is clearly preparing for the latter. The defence budget will grow 8.1 percent, up from 7 percent in 2017.

The reports do mention reforms. China will further reduce energy intensity, open markets to more foreign investment, and somehow force pesky local governments to stop running up bad debts. Li will keep trying to cut tax and paperwork burdens for private businesses. Officials also want to improve a troubled debt-to-equity swap programme for struggling state-owned heavy industries. Fine, but investors have heard all this before.

So long as the money supply keeps out-growing the economy's actual needs, as it has been doing for years, imbalances will increase. Even after investment in growth industries like artificial intelligence, funds will keep pouring into Chinese firms fighting price wars using cheap credit. This provokes trade tensions, and increases non-performing debts in the mainland financial system.

US-Europe trade war must be avoided: German carmakers

REUTERS, Frankfurt

German carmakers said on Monday that a trade war between the United States and Europe must be avoided, expressing their profound concern after US President Donald Trump threatened to tax car imports.

"Punitive duties can't be the answer," Bernhard Mattes, president of Germany's VDA automotive industry association, said in a statement. "A trade war between the USA and Europe must be avoided at all costs. In such a trade war there are only losers on all sides."

Trump at the weekend threatened to tax European car imports if Brussels retaliates against his plan to slap tariffs on imports of steel and aluminum as part of his "America First" trade policies.

The VDA, which represents automakers Volkswagen, BMW and Daimler, pointed out that their auto production in the United States at 804,000 units was greater than their exports from Germany and was growing.

German exports amounted to 494,000 cars last year - a fall of a quarter since 2013.

More than half of the vehicles made in the United States by German carmakers are exported, the VDA added, supporting the US foreign trade balance.

Trump's threat to launch a trade war has encountered resistance from fellow Republicans, including Senator Lindsey Graham of South Carolina, where a BMW plant employs 9,000 workers.

IEA sees US oil output surge stealing Opec share in next 5yrs

REUTERS, London

US shale oil output is set to surge over the next five years stealing market share from Opec producers and moving the country, once the world's top oil importer, closer to self sufficiency,the International Energy Agency said on Monday.

A landmark deal in 2017 between Opec and other oil producers including Russia to curb output to reduce global oversupply materially improved the outlook for other producers as oil prices rose sharply throughout the year, the IEA said.

As a result, US oil output has resumed sharp growth over the past year and is expected to rise by 2.7 million barrels per day (bpd) to 12.1 million bpd by 2023, as growth from shale fields more than offsets declines in conventional supply. Natural gas liquids will add another 1 million bpd to reach 4.7 million bpd by 2023.

With total US liquids production set to reach nearly 17 million bpd in 2023, up from 13.2 million in 2017, the United States will be by far the world's top oil liquids producer.

"The United States is set to put its stamp on global oil markets for the next five years," Fatih Birol, the IEA's executive director, said in a medium-term market outlook.

Oil production growth from the United States, Brazil, Canada and Norway will more than meet global oil demand growth through 2020, the IEA said, adding that more investment would be needed to boost output after that.

Non-Opec production is set to rise by 5.2 million bpd by 2023 to 63.3 million bpd with the United States alone accounting for nearly 60 percent of global supply growth.

Growth will be led by the Permian Basin in Texas and New Mexico, where output is expected to double by 2023.

"Despite talk of capital discipline and increased focus on returns rather than growth, US producers regrouped quickly when oil prices stabilized and began to rise," the IEA said. Production in 2017 rose by 670,000 bpd as drillers added 200 rigs "beating all expectations", the IEA said.

Last year, the IEA forecast US shale production to grow by 1.4 millionf bpd by 2022 with oil prices of up to $60 a barrel and by up to 3 million barrels with oil at $80 a barrel.

Hilsa soup, noodles on the way

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Virgo Fish and Agro Process is aiming to launch the hilsa soup and noodles in the local market before the Pahela Boishakh, when hilsa is consumed in large numbers.

"We will try to place the products at chain supermarkets within the next two months," said Jamil Ahmed, executive director of Virgo Fish and Agro Process.

The company is scheduled to get the technology formally at a ceremony today at the DoF.

Soup and noodles from hilsa have great prospects, Ahmed said.

"This fish has appeal to the Bengalis at home and abroad. So, we will cater to both the domestic and international markets."

Top Vietnamese leathergoods maker to invest $100m in Bangladesh

FROM PAGE B1

Export of leather and leathergoods fell 4.61 percent year-on-year to $709.51 million in the first seven months of the current fiscal year, which 9.79 percent less than the periodic target, according to data from the Export Promotion Bureau.

The sector's export target for this fiscal year is $1.38 billion, up from the previous year's receipts of $1.23 billion.

Trade between Vietnam and Bangladesh is heavily tilted towards Vietnam.

In 2016-17, Bangladesh imported goods worth $417 million to Vietnam while the export figure touched only $66.44 million, according to data from the Federation of Bangladesh Chambers of Commerce and Industry.

Equip grads with right skills: expert

FROM PAGE B1

He urged industries to invest on universities to prepare the young generation either for entrepreneurial activities or serving in industries, both of which ultimately contribute to the economy.

On whether to go for corporate jobs or become an entrepreneur, Frontier Technology Managing Director Humaira Chowdhury suggested giving a couple of years in the former to get the vibe before going for realising one's ideas.

She questioned the benefits of competitions on entrepreneurship ideas, saying she had seen would-be graduates win such contests just for glory before going for corporate jobs.

Rashed Hasan, chief investment officer of asset management company LR Global Bangladesh, said students focus on grades, but it was the attitude that mattered.

Rezwan Ali, director of Omega Exim Ltd, said graduates need to demonstrate that they have the knowledge as only then an industry would help them gather the necessary experience.

Md Mizanur Rahman Khan, general manager of Palmal Group of Industries, asked youths to engage themselves in innovative ideas to stop foreign firms from taking away foreign currency from the country through businesses.

Openness is very important and students need to develop this habit while in graduate schools, said Nazmul Chowdhury, senior vice president of City Bank Ltd.

According to the discussants, one should go for startups only when adequate confidence to think out of the box exists.

Prof Iftekhar Ghani Chowdhury, dean of Brac Business School, delivered the welcome speech while Mahreen Mamoon, assistant professor of the school, moderated the event.

Mushtaq Ahmed, CEO of ChhobiChai, Kaushik De, creative head of Magnito Digital, Abdullah Chowdhury Robin, of Wellbeing Foundation, and Meer Sajed-Ul-Basher, CEO of Impress Capital Ltd, were also present.

Mirza Azam comes down hard on WB, finance ministry

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Foyuzur Rahman Chowdhury, secretary of the ministry of textile and jute, echoed the same on Indian seeds.

"We have to produce our own seeds," he noted.

Bangladesh has diversified jute goods to nearly 250, up by 100 from a year earlier, according to the Jute Diversify Promotion Centre.

Saif Islam Dilal, president of ERF, chaired the programme; Mahmudul Hassan, chairman of Bangladesh Jute Mills Corporation, spoke among others.

Telecom operators seek tax exemptions

FROM PAGE B1

As in previous budgets, Amtob has again wanted withdrawal of a VAT and supplementary duty of Tk 100 on sales of SIMs, as more people are using smartphones now to avail different telecom services.

The government reduced the duty on sales of SIM to Tk 100 from Tk 800 couple of years ago. But this Tk 100 duty should also go to help marginal people get mobile connections at cheaper rates, Amtob said.

If the duty is withdrawn, the government may lose some funds; but the move will definitely help expand the mobile customer base, leaving a positive impact on the country's gross domestic product, reads the proposal.

Amtob also sought withdrawal of the 10 percent tax on corporate social responsibility expenditures, as such tax may discourage the mobile operators to spend more of such funds.

They also sought a complete directive from the NBR on taxes payable by e-commerce businesses to prevent grass-roots level tax officials from charging excessively.

Another amendment was sought for bringing down corporate tax on earnings of publicly listed and non listed companies from 40 and 45 percent respectively to 25 and 35 percent.

Euro zone investor morale falls

REUTERS, Berlin

Investor morale in the euro zone deteriorated further in March, a survey showed on Monday, due in part to concerns about rising protectionism after US President Donald Trump threatened to impose import tariffs on steel and aluminum.

Trump said on Thursday that the United States would apply duties of 25 percent on imported steel and 10 percent on aluminum to protect US producers.

The European Commission called the step a blatant intervention that amounted to protectionism and it raised the prospect of counter-measures.

"The comments by US President Donald Trump about introducing tariffs on certain products have not only alarmed the European Commission. Investors are also clearly reacting," Sentix researcher Manfred Huebner said.