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# *Everything one needs to know about*

## *Nirav Modi-PNB Scam!!!*

Hello my friends...It was the regular morning walk, when my walk buddy asked my view about the recent Nirav Modi scam... I had a blank face... It was he... who then... narrated me the scam like a story.. I read a dozen Nirav Modi scam articles... I kept wondering about the economic consequences of such a scam then after... Not that this is the first banking scam India has seen, but definitely the biggest loan fraud in the country's history... Nevertheless, we first need to know entirely about the scam... in my next article I will try to elicit the economic consequences of the PNB scam...

### *Everything you need to know about the scam:*

Mr. Nirav Modi is the Founder of the global diamond jewelry house established in 2010. The brand was named after him 'Nirav Modi'.

On January 29th of 2018, Indian Government's Central Bureau of Investigation (CBI) launched an investigation into Modi. The CBI was acting on a complaint received from the Punjab National Bank (PNB), an Indian state commercial bank, that accused Modi and his partners of bank fraud of ₹280 Crore (USD 40 million). While ₹280 Crore was just the principal amount of the loan, the potential liability of loss to PNB goes well up to ₹11,400 crore (USD 1,759 million).

Before we get into the details, one must know what is LOU...

*Letter of undertaking (LOU) is a form of bank guarantee, under which a bank can allow its customer to raise money from another bank's foreign branch in the form of a short term credit.*

According to the Bank, two PNB employees at the Mumbai branch helped Nirav Modi to fraudulently receive ₹280 Crore worth LOU. The PNB officials issued fake 150 guarantees

or Letters of Undertaking to get loans from banks overseas. The fraud went undetected for years as the officials shared their SWIFT passwords and also didn't register the transactions in the books of account.

**SWIFT network:** *SWIFT stands for the Society for Worldwide Interbank Financial Telecommunications. It is a messaging network that financial institutions use to securely transmit information and instructions through a standardized system of codes. SWIFT assigns each financial organization a unique code that has either eight characters or 11 characters which is used to make safe and secure transactions .*

Letter of Undertaking is generally meant for short term only. However, in this case the term of loan was extended far beyond 90 days. Today the loan amounts to almost ₹11,400 crore. In 2016, Reserve Bank of India (RBI) had warned the commercial banks about the misuse of banking and financial technologies. As we can see, the herald was thus truly predicted.

According to an article, the banking scam began long back in 2011. It was not that all 150 Letters of Undertaking (LoU) were issued together in a single year. In fact, the LOU were issued year wise since 2011. It has been claimed that Nirav Modi had set up 200 shell companies through which these transaction were executed. And surprisingly enough, when demonetization hit the Indians hard, it did not miss to hit the billionaire diamond trader any less. Almost all the shell companies were closed in the months following demonetization of November 2016.

How many more scams does India need to see before the vulnerability of it's banking system is no longer challenged? The Harshad Mehta scam in 1992 , Lalit Modi disputes since 2010, Vijay Mallya controversies since 2012 and now the Nirav Modi swindle in 2018. Seems like Indian banking systems and the Indian institutions need to take some harsh and strong moves.