



SOCIETY FOR COMPUTER TECHNOLOGY AND RESEARCH

PUNE INSTITUTE OF COMPUTER TECHNOLOGY

**ENTREPRENEURSHIP DEVELOPMENT CELL**



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## **Session Report: 12/7/2019 – “Nirav Modi Fraud Case”**

Speaker: Mayur Raut, BE 4.

The session was attended by 40 students.

Nirav Modi group of companies were duping the banks for at least **seven years** without raising any eyebrows. It was only due to the accidental retirement of a junior official which led to the discovery of the gargantuan fraud.

To understand the nuances of this scam, we first need to understand the concept of a **Letter of Undertaking (LoU)** or **Letter of Credit (LoC)**. A **Letter of Undertaking** is an assurance note offered by a bank to a party to facilitate overseas import payments. For instance, Punjab National Bank (Lender) issued LoU's to client Nirav Modi, thus agreeing to repay the principal and interest on his company's loans in case of default.

While the aforementioned security measures are put in place by banks to check such scams, Nirav Modi's companies used it adeptly to its own benefit, in collusion with certain bank employees. Two of PNB's employees fraudulently issued these LoU's to the diamond jeweller's entities and even transmitted SWIFT consents to overseas branches of Indian banks to raise **buyers' credit** for Nirav Modi's firms without making any entries in the CBS and without furnishing any cash margins from them.

It may be noted that this was accidental, as one of the bank's employees responsible for handling the SWIFT services retired, following which the new official denied granting another fraudulent LoU to Nirav Modi's firms. The **issuance request was denied** by the bank after Modi's firm was asked to furnish 100% cash margin for the LoU. When the firm argued that it had availed this facility in the past, PNB officials became suspicious. Upon tallying CBS entries with SWIFT, bank officials found that a few of its employees had fraudulently issued LoU's for Hong Kong branches of two Indian banks for Modi's firms. The bank discovered traces of the fraud and filed a **police complaint** against Nirav Modi, Mehul Choksi and others accused on **January 29, 2018**. The bank further revealed that the fake LoU's were issued between the years **2011 to 2018** and the amount totaled **\$1.8 billion**.

It may be noted that the RBI has directed PNB to settle all the LoU's with different banks that loaned money to Nirav Modi firms. At a time when the Indian banks are coping with rising NPAs, the fraud comes as a big blow to PNB and serves as an **eye-opener** for other banks to **regulate internal processes**.





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(In Picture: *Mayur Raut*)

