

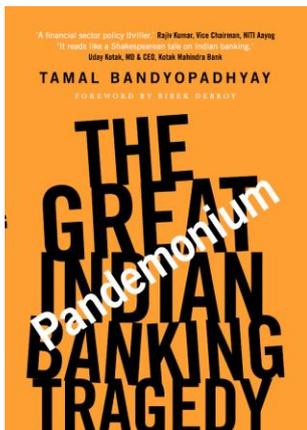
Guest blog/Book extract

## Stories from 'Pandemonium: The Great Indian Banking Tragedy'

Tamal Bandyopadhyay

*In this guest blog Tamal Bandyopadhyay quotes extracts from his just published book 'Pandemonium: The Great Indian Banking Tragedy' and highlights the questions galore on governance the book seeks to answer.*

While I have often – though not always, written about the success stories in the Indian banking sector, my latest book turns a spotlight on the dark underbelly of Indian banking with all its stories of fraud, greed, fear and poor governance.



'Sensational' is just a bald statement of fact when it comes to describing the way Gokulnath Shetty, a deputy manager in a Punjab National Bank branch, under the nose of Reserve Bank of India's central office in Mumbai, helped to pull off a fraud of nearly \$2 billion. Shetty received just one promotion in his 36-year career, and spent the last seven years at the branch where the fraud took place. He was an unassuming character who commuted by local train and autorickshaw even as he was helping to rake in huge sums by exploiting a flaw in the system.

Then, there is the story of Kingfisher Airlines. The auditors and the regulator emerge in poor light in that sorry episode.

Bankers can and do take wrong business decisions in good faith. But the investigative agencies proceed under the presumption of criminality. This feeds into an apparently endless public craving for vengeance, however misdirected that might be. Social media adds fuel to the fire. Charge-sheets are filed; bankers are arrested; even sent to jail. In another case, the chief of a public sector bank was sacked just eight minutes before her scheduled retirement.

A few retired bank executives spent months at Mumbai's Arthur Road Jail in a barrack for undertrials, sleeping on threadbare rugs laid out on concrete floors and using primitive amenities. They endured this until a court decided whether they (like countless others before and since) were guilty or innocent.

The book also takes a deep dive into the stories of Rana Kapoor, the promoter and CEO of Yes Bank, and Chanda Kochhar, a career ICICI Banker, and a Padma award winner. The details of those stories are very different, but the underline theme is the same: The biggest casualty has been corporate governance. The boards ate out of the hand of the CEOs; the chairman went out of his way to certify their conduct.

The fate of those two erstwhile stars rang the death knell for the personality cult in banking. Also, many staunch believers in bank privatization have begun changing their minds after revelations about the style of functioning in these two large listed private sector banks and the way their boards functioned.

Some **extracts** from the book are given below. These relate to the acute fear psychosis that has built up among public sector banks, board oversight in banks and some observations regarding bank supervision and policy, Seemingly unconnected, all stories eventually highlight a key theme: that governance matters.

### **Bank of Maharashtra, IDBI Bank**

Early morning yoga class was a sacrosanct ritual for Ravindra Prabhakar Marathe, 59, the MD and CEO of the Pune-headquartered Bank of Maharashtra. Marathe lived in his official residence on Prabhat Road, in an elite neighbourhood in the heart of the city, a stone's throw away from the Film and Television Institute of India.

On Wednesday, 20 June 2018, at around 6.30 am his neighbours saw him getting on his old bicycle as usual and heading for the Lele Guruji Yoga Kendra at Erandwane, just two lanes away. Others who attended the yoga session that day say there was no physical activity. Instead, the class was asked to listen to an audiotape on how to keep cool under adverse circumstances.

That may have helped Marathe remain calm when he was greeted by four police officers, including a woman, who were waiting at the gate of his residence when he returned after the class, and some vegetable shopping at the weekly farmers' market on the playground near the Bal Ranjan Kendra.

The police officers allowed him to drop off the bag of vegetables at his bungalow and change out his trackpants into formal trousers and shirt before 'whisking' him away

(as they say) to the office of the Economic Offences Wing of Pune Police at Shivajinagar in a police car. He was not allowed to take his mobile phones or his laptop.

The police also picked up Rajendra Gupta, the bank's executive director; Nityanand Deshpande, the zonal manager; and Sushil Muhnot, former CMD of the bank. They were accused of misusing their authority in making loans to a local property developer, D.S. Kulkarni Developers Ltd (DSKDL)...

The case was finally closed on 21 January 2019. The special judge of the court handling MPID cases, D.G. Murumkar, accepted the closure report of the investigating officer and discharged Marathe, Gupta and Muhnot from their alleged offences and cancelled the bail bonds.

While passing the order, the judge said:

*It is necessary to mention that the investigating officer, without making proper inquiry and investigation, pithily and hastily arrested the present accused, who were holding key posts in Bank of Maharashtra, which he should not have done... By his action, banking sector became restless.*

Restless was an understatement. This is one of the many such cases that have created an acute fear psychosis among public sector banks.

*Flashback to 23 January 2017*

Neighbours of B.K. Batra, 61, a former deputy managing director of IDBI Bank, saw him walking briskly in Sheila Raheja Park at Mumbai's western suburb of Malad East, as he did every morning.

By the time he returned to his apartment at Raheja Residency on General AK Vaidya Marg, a few minutes' walk from the park, a posse of CBI officers had already entered the complex.

They pressed the bell at Batra's third-floor apartment and presented him with a search warrant. The reason was IDBI Bank's exposure to the defunct Kingfisher Airlines of Vijay Mallya.

Around the same time, different teams of CBI officers were going through the same exercise at the apartments of four retired IDBI Bank executives at Oshiwara and

Santacruz West in Mumbai, Hiranandani in Thane and Exotica Housing Complex on Golf Course Road at Gurgaon, Haryana.

Like Marathe, all of them were asked to keep their mobile phones, laptop and iPad on a table and not allowed to make any calls. But unlike at Marathe's house in Pune, a thorough search was conducted at every place...The duration of the search was different at different houses...

When Batra reached the CBI office around 10 pm, three of his former colleagues – O.V. Bundellu (retired deputy managing director), S.K.V. Srinivasan (retired executive director) and R.S. Sridhar (a retired general manager from the bank's project appraisal department) – greeted him at the third-floor office. Batra, who had retired as a deputy managing director, was an executive director in the bank when he was handling the Kingfisher loan proposal...

Like Bundellu, Srinivasan and Sridhar, Batra too had to undergo the ritual of being formally placed under arrest.

Why? None of them was told the reason.

## **Yes Bank**

When Yes Bank informed exchanges on 30 August 2018 that RBI had approved Kapoor's reappointment 'till further notice' (instead of offering another three-year term), it was clear that the regulator was not in favour of allowing him to continue at the helm.

A little over a fortnight later, in an exchange filing, on 19 September 2018, Yes Bank said: 'The Reserve Bank of India has vide letter dated 17 September 2018 received on Wednesday, intimated that Rana Kapoor may continue as the MD & CEO till 31 January 2019,' adding that the board of the bank will meet on 25 September to decide on the 'future course of action'.

The RBI wrote to the Yes Bank board, headed by Ashok Chawla, former finance secretary, to look for Kapoor's successor.

There was hard lobbying with the regulator to allow Kapoor to remain in the saddle as 'the bank could not run without him'. In one such meeting at RBI, Kapoor called the

bank his son – his only son beside his three biological daughters – tears rolling down his eyes. But the regulator was not impressed.

The RBI letter was extremely critical of the ‘persistent governance and compliance failure reflected by the bank’s highly irregular credit management practices, serious deficiencies in governance and a poor compliance culture’.

It said:

*The serious lapses in the functioning of and governance in the bank and, in particular, the poor compliance culture, other serious violations of statutory and regulatory guidelines during the past three financial years, notwithstanding the subsequent corrective actions stated to have been initiated by the bank, reinforce our grave concern and regulatory discomfort with the role of the incumbent MD & CEO in the governance, management and superintendence of the affairs of the bank.*

## **ICICI Bank**

Those who trust Chanda Kochchar’s judgment and swear by her intelligence, integrity and articulation say it is unfair to drag her into such a controversy. They ask: Can’t a successful woman professional have an equally successful husband?

There were takers for many such arguments defending Kochhar. That was until the Srikrishna Committee report, submitted on 27 January 2019, called her bluff.

It found that Kochhar had not made several mandatory and appropriate disclosures which she should have done to avoid conflict of interest. By not making the disclosures, she had violated the provisions of Companies Act, 2013, the listing obligation and disclosure requirement of SEBI and the Prevention of Money Laundering Act of 2002.

Let us look at some of these violations:

Deepak Kochhar and his brother, along with the Videocon Group, had substantial shareholdings in Credential Finance Ltd from 1996 to 2001. Deepak was also a director of the company in 2007–09 and later became MD. Chanda Kochhar herself held shares of the company until 2001. Still, she claimed to be unaware of any business dealings between her husband and the Videocon Group until 2018, when SEBI launched its investigation.

The residence of Kochhar at CCI Chambers in South Mumbai between 2009 and 2016 (including the period when she was the MD and CEO of the bank) was owned by a Videocon Group company, Quality Techno Advisors Pvt Ltd.

In October 2016, the company effectively gifted the apartment to a Kochhar family trust as the ownership was transferred at a cost much lower than its market value. Her husband was a director of the company.

Sometime in 2009, when Kochhar was the boss of the bank, NuPower Renewables Pvt Ltd, of which her husband was the co-founder and CEO, entered “non-arm’s length” transactions with the Videocon Group. It received multi-crore investments from the Videocon Group, which did not earn anything from such investments until 2016 when it got 3.99 per cent return.

Her husband also had extensive business dealings with another Mumbai-headquartered industrial group – the Essar Group. A relative of the Essar Group promoters made multi-crore investments in NuPower Renewables. Kochhar attended various meetings of the bank at which loans were sanctioned to the Essar Group.

### **Role of Bank Boards**

Both ICICI Bank and Yes Bank spotlight the role of the board of banks, the CEO, corporate governance and the so-called conflict of interest. And these cases also highlight the regulator’s abject failure in keeping a tab on how bank board’s function...

Indeed, the board plays a critical role in running a bank, but the buck stops at the MD and CEO. Section 10B of the Banking Regulation Act makes it abundantly clear that the management of the affairs of a private bank is ‘entrusted’ to an MD, who exercises her powers, ‘subject to the superintendence, control and direction of the board of directors’.

Do the bank CEOs make all the disclosures they need to do? Most CEOs in private banks have long innings and, often, they are home-bred, rising from the ranks. This means they join the board as a director even before becoming the boss. Do they make the disclosures all through their career? After all, perception of governance is as important as governance itself.

There are many ways to restore the perceived erosion of standards about governance in Indian banks – both private and public. One such option could be the appointment of governance officers.

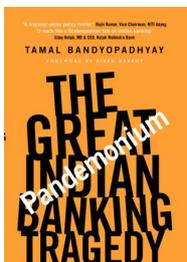
Their task is very different from that of ethics officers, which some of the Indian companies, including banks, have started appointing. But then, the company secretary of a bank, to a large extent, is the governance officer in a bank. Are they doing their jobs properly?

There are questions galore that my book looks to answer.



*Tamal Bandyopadhyay is a life-long reporter and journalist, and award-winning national business columnist and a best-selling author of six books. He is widely recognized for his column 'Bankers Trust' on banking and finance. He is a consulting editor with Business Standard.*

**Email:** [tamal.the@gmail.com](mailto:tamal.the@gmail.com) **Blog:** [bankerstrust.in](http://bankerstrust.in) **Twitter:** @tamalbandyo



You can use the following link to buy the book:

<https://www.amazon.in/Pandemonium-Great-Indian-Banking-Tragedy/dp/819464335X>

**Disclaimer**

This document has been authored by Tamal Bandyopadhyay. The views expressed in the document are personal to the author and do not necessarily reflect the opinion of IiAS. IiAS shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not be taken as the basis for any voting or investment decision and/or legal opinion/advice. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of the individual resolutions referred to in this document (including the merits and risks involved). The discussions or views expressed may not be suitable for all investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. IiAS reserves the right to make modifications and alterations to this statement as may be required from time to time. However, IiAS is under no obligation to update or keep the information current. Nevertheless, IiAS is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither IiAS nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

**Confidentiality**

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IiAS to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information provided in these reports remains, unless otherwise stated, the copyright of IiAS. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of IiAS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

**Other Disclosures**

IiAS is a SEBI registered research entity (proxy advisor registration number: INH000000024) dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions of about 750 listed Indian companies (<https://www.iiasadvisory.com/iias-coverage-list>). Our products and services include voting advisory reports, standardized services under the Indian Corporate Governance Scorecard, and databases ([www.iiasadrian.com](http://www.iiasadrian.com) and [www.iiascompayre.com](http://www.iiascompayre.com)). There are no significant or material orders passed against the company by any of the Regulators or Courts/Tribunals.

This article contains excerpts of the book, 'Pandemonium: The Great Indian Banking Tragedy' and is a commentary on the general trends and developments witnessed in the securities market.

**About IiAS**

Institutional Investor Advisory Services India Limited (IiAS) is an advisory firm, dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions for about 800 companies that account for over 95% of market capitalization.

IiAS provides bespoke research, valuation advisory services and assists institutions in their engagement with company managements and their boards.

IiAS has equity participation by Aditya Birla Sunlife AMC, Axis Bank, Fitch Group Inc., HDFC, ICICI Prudential Life Insurance, Kotak Mahindra Bank, RBL Bank Limited, Tata Investment Corporation, UTI Asset Management Company Limited and Yes Bank.

IiAS is a SEBI registered research entity (proxy advisor registration number: INH000000024).