

# The Big Bank Scam: Failure of Corporate Governance

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## Abstract

The case deliberates the series of events exposing serious shortcomings in corporate governance and risk management practices of one of India's oldest and most venerable financial institutions but also cast a glaring spotlight on various unfathomable issues of corporate governance such as weak institutionalisation of whistleblowing mechanism, ethical lapses and regulatory oversight within the banking sector. The case provides an opportunity to understand the key components of corporate governance structure and consequences of poor corporate governance. The case highlights the responsibility of the board of directors and audit committee and discusses the changes required in the corporate governance structure necessary to ensure that such incidents do not take place. The case attempts to unearth the weaknesses in the bank's internal processes that led to a scam of this magnitude and why it remained ongoing and undetected for several years. We found that there is a need for banks to leverage the latest advancements in technology to upgrade their internal functions and processes and make them more accountable and transparent. Further, it also opens the debate on whether public sector banks and other financial institutions should be guided solely by the profit maximisation motive, or they also meet their social obligations.

## Keywords

Banking fraud, corporate governance, whistleblower, internal risk and control, India

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## Introduction

The flow of international capital has a profound impact on economic growth, working its magic through direct and indirect channels. When foreign capital flows into a country, it brings a financial windfall, easing the financial constraints that often hinder businesses. This injection of resources encourages domestic investment, creating a ripple effect that ultimately fuels economic growth. Numerous studies, such as those by Bekaert et al. (2005), Edison et al. (2002) and Kose et al. (2009) have sung the praises of these direct connections between international capital and economic prosperity. However, there's more to the story. International capital also acts as a catalyst for financial development, particularly in banking and equity markets. This financial evolution, in turn, contributes to economic growth. It's a bit like the engine that drives the economic locomotive. Financial development and its impact on economic growth have been a hot topic among scholars and policymakers for years. While earlier studies, led by luminaries like King and Levine (1993) and Rajan and Zingales (1998), painted a rosy picture of financial development's positive influence, recent research has added a dash of complexity to the narrative. Studies by Aizenman et al. (2015), Berkes (2012), Cecchetti and Kharroubi (2012), Cournède and Denk (2015), Law and Singh (2014) and Sahay et al. (2015) have raised questions about non-linear relationships and generated mixed results.

In the annals of financial misconduct and corporate malfeasance, few scandals have reverberated as profoundly as the Punjab National Bank (PNB) scandal involving the enigmatic jeweller, Nirav Modi. This case serves as a comprehensive examination of one of India's most notorious financial debacles, a seismic event that sent shockwaves through the nation's banking industry and left an indelible mark on the global financial landscape. The PNB scandal, which burst into the public consciousness in early 2018, not only exposed serious shortcomings in the internal controls and risk management practices of one of India's oldest and most venerable financial institutions but also cast a glaring spotlight on issues of corporate governance, ethical lapses and regulatory oversight within the banking sector.

As we embark on this journey of inquiry and analysis, this case will delve into the intricate details of the PNB scandal. We will explore its origins, unravel the complex web of fraudulent transactions, and examine the far-reaching consequences that continue to shape the banking industry and regulatory landscape. Moreover, we will reflect on the lessons learned and the reforms enacted in the wake of this scandal, aiming to glean insights that can fortify the resilience and integrity of financial systems both in India and around the world.

The PNB scandal stands as a stark reminder of the critical need for transparency, accountability and ethical conduct within the realm of finance. It serves as a cautionary tale for financial institutions, regulators and the public at large, underscoring the ever-present risks of financial impropriety and the imperative of maintaining the highest standards of governance and integrity.

In a startling revelation, PNB, India's leading public sector bank, account for a massive scam of \$1.77 billion in one of its branches in Mumbai. This revelation

shattered PNB's image as it ranked 191st among the Top 1000 World Banks in 2017 by *The Banker*, London. The scam sent shockwaves through the financial world, emphasising the need for accountability and vigilance. PNB's name became a cautionary tale, serving as a reminder of the fragility of the system and the allure of illicit gains. The aftermath of this incident would redefine the bank's future (Narayan, 2018). In a grievance presented to India's esteemed investigative agency, the Central Bureau of Investigation (CBI), a bank conveyed that Nirav Modi and affiliated entities had engaged in a clandestine alliance with its own officials. The purpose of this collusion was to obtain guarantees or Letters of Undertaking (LoUs), enabling them to secure buyer's credit from foreign banks. The bank further asserted that these activities were part of a fraudulent scheme. As per CBI's charge sheet, the fraud was coined by Nirav Modi, a famous diamond trader, with the help of his wife Ami Modi, Uncle Mehul Choksi and brother-in-law Nishal Modi. All of them were partners in several other companies, like M/s Stellar Diamonds, M/s Diamond R US and M/s Solar Exports. The charge sheet implicated officials and employees of the PNB, in collaborating with the individuals to facilitate the fraudulent acts. PNB contended that the scam, originally believed to revolve around diamond trading, was unrelated to its intended purpose. Subsequently, it came to light that the fraudulent activities extended beyond PNB and encompassed other financial institutions, such as State Bank of India, Allahabad Bank, Axis Bank and Union Bank. Multiple Indian investigating agencies are looking into this fraud now (Modi, 2018).

Studying financial scams like the PNB scam involving Nirav Modi is important for several reasons, each of which contributes to a broader understanding of financial markets, regulatory frameworks and the risks associated with financial institutions. Studying financial scams like the PNB scam involving Nirav Modi serves as a cautionary tale and provides insights that can be used to strengthen the financial system, protect investors and prevent future fraudulent activities. It underscores the importance of robust regulation, effective law enforcement and public awareness in maintaining the integrity of financial markets. The case highlights the significance of the financial scam in terms of its impact on public trust in the banking system, making it relevant and engaging. The case outlines the primary objectives of the case study, which include uncovering weaknesses in internal processes, investigating employee involvement and exploring regulatory and auditor oversights. The case raises thought-provoking questions about the role of technology in upgrading internal bank processes and the balance between profit maximisation and social obligations for financial institutions.

## **Subject Area**

The case study covers the subject areas of corporate governance, fraud and investigations. This study is also relevant for the students to understand teaching aspects of business ethics.

## Student Level/Applicability

This case study is designed exclusively for the purpose of education and does not aim to portray the effectiveness of managerial decision-making. It serves as a comprehensive exploration of special investigation techniques and methodologies while highlighting weaknesses in governance and internal controls.

## Literature Review

The research insights drawn from these diverse studies shed light on crucial aspects of the financial and banking sectors. Pradhan and Kumar (2022) findings underscore a persistent link between stock market development and bank-centred financial progress, emphasising the positive influence of banks, savings and per capita real GDP on stock market growth over both short and long horizons. Petkovski and Kjosevski's (2014) empirical investigation reveals the nuanced relationship between banking sector development and economic growth, with credit to the private sector and interest rates displaying negative correlations, while a higher ratio of quasi-money contributes to stronger economic growth. Chilumuri's (2013) study highlights the structured approach and transparency in governance at the State Bank of India, emphasising the importance of regular board meetings and transparent documentation in enhancing operational efficiency. Finally, Zaman et al. (2014) research underscores the policy imperative of reducing information asymmetry and enhancing corporate governance in Pakistan's banking sector, with the potential to improve overall financial performance. These insights collectively emphasise the multifaceted nature of financial and banking sector dynamics and the critical role of effective governance, transparency and strategic policies in driving economic growth and performance.

A study by Menaga et al. (2023) is to conduct a comprehensive analysis of corporate governance practices within family-owned firms through a review of academic literature. It employs bibliometric analysis and visualisation tools to identify key trends and contributors in the field, highlighting a focus on the USA and the impact of family ownership on firm performance. The study also underscores areas that have received less attention in research, such as corporate strategy and governance in family businesses, providing valuable insights for future research. Another study by Duhoon and Singh (2023) is to investigate the relationship between consumers' perceptions of corporate social responsibility (CSR) initiatives and brand loyalty. It combines theories from Carroll's CSR pyramid and Ovidiu's brand loyalty model. Through a survey of Indian-listed FMCG sectors during the COVID-19 pandemic, the study gathers 450 valid responses and finds that CSR positively influences brand loyalty, particularly in terms of legal and ethical responsibilities. The research suggests that marketing strategies like event marketing and customer loyalty programs can enhance CSR initiatives and lead to increased customer satisfaction and repeat purchases.

## **Research Methodology**

The research methodology employed in the case is premised on specific paradigms of unobtrusive research techniques, including conceptual and document analysis. Unobtrusive research refers to methods of collecting data/information which do not interfere with the subjects under study (because these methods are not obtrusive). In the context of this case, unobtrusive research was necessary to collect data without interacting with the subjects. Data analysis is explored through an in-depth analysis of the case that demonstrates the extent of fraud and corruption and the lack of ethical conduct in a renowned public sector bank in India.

## **Banking Industry in India: Unforeseen Bumps on the Road to Growth**

Following a prolonged period of economic slowdown, global economic growth experienced an acceleration to 3.1% in 2017 (Global Economic Prospects, June 2018: The Turning of the Tide). Emerging economies like India displayed improved performance, largely due to structural changes implemented in recent years. Indian banks have been at the forefront of redefining their business operations by enhancing corporate governance standards, ensuring both compliance and implementing very strict risk and credit processes. These kinds of initiatives are important for the overall growth and development in the Indian banking sector. However, the banking sector of India facing significant challenges in these years, particularly concerning the mounting stressed assets. This issue has been especially prominent among public sector banks. Additionally, the banking sector has been marred by a series of scandals involving collusion among employees, which has adversely affected the credibility of these financial institutions. These incidents have cast a shadow on the overall trust and reliability associated with the banking industry in India.

## **Panjab National Bank: Genesis**

PNB, an offshoot of the Swadeshi Movement was founded in 1894 by the leaders of the Swadeshi Movement in India with the great persuasion that if India had to grow and flourish after independence, it should have its financial establishment where people can bank upon. So, the bank started its operations on 12 April 1895 in Lahore, which is a part of Pakistan today. The first board of seven directors from different communities of India. The board consists of great patriots like Lala Lajpat Rai, Lala Harkishan Lal, Mr E C Jessawala, Babu Kali Prasono Roy and Bakshi Jaishi Ram, Sardar Dyal Singh Majithia and Lala Dholan Dass. Thus, an ethnically diversified board with a few Hindus along with a Bengali, a Sikh and a Parsi, joined hands together to start a Swadeshi bank with Rs. 2 lakhs of authorised share capital and only nine members as staff.

## The Unfolding of the Scam: The Modus Operandi

Nirav Modi approached PNB seeking funds to facilitate the import of diamonds for his high-end collection. Typically, banks issue a Letter of Undertaking (LOU) to clients, outlining a specified credit limit. This allows the client to obtain short-term loans from foreign branches of other banks to make payments to their overseas suppliers in foreign currency. In the event of the client's failure to repay the amount in the Letter of Undertaking (LOU), it is the responsibility of the issuer bank to fulfil the commitment. However, in this case, an alarming irregularity emerged as the issuance of LOUs was not properly maintained by the core banking system of PNB's. This failure to document the LOUs was a direct violation of the guidelines established by the Reserve Bank of India (RBI). According to RBI regulations, buyer's credit for gem imports should have a maximum duration of 90 days from the date of shipment. However, due to the absence of accurate records, it became apparent that this prescribed time limit had been exceeded, further deepening the complexity of the situation (George, 2018).

The issuance of Letters of Undertaking (LOUs) followed a distinct procedure utilising the mechanism called the Society for Worldwide Interbank Financial Telecommunication (SWIFT). It was conducted as an independent process, separate from the bank's primary technology platform. These LOUs were duly authorised and served as valid instruments. Based on the validity of these LOUs, few Indian and foreign banks abroad extended short-run buyers' credit in foreign currencies to the designated recipients. This credit provided the beneficiaries with the ability to make payments for their imports in foreign currency. By doing so, it effectively reduced the exposure to exchange rate fluctuations, safeguarding against potential risks in this regard (Rao, 2018).

In January 2018, Nirav Modi's partner firms contacted the Brady House branch of PNB and asked for the credit once again. During the discussions, bank officials insisted on a 100% cash margin for the credit. However, the group argued that they had previously received cash without any margin requirement. As a result, eight Letters of Undertaking (LOUs) were issued, with a total value of ₹2,800 million (S\$56 million). These LOUs were set to mature and require payment on 25 January 2018. They were issued against two Indian banks, that is, Allahabad Bank and Axis Bank at their Hong Kong branches. On 14 February 2018, PNB made a public disclosure to the stock exchanges, revealing that the fraudulent amount involved in the case was ₹11,394 crore. The bank also cautioned that this amount had the potential to increase further as investigations progressed, indicating the seriousness and scale of the fraudulent activities (Narayan, 2018).

## The Aftermath

PNB filed a complaint with the RBI on 29 January 2018, regarding fraudulent activities involving the Modi group firms and subsequently lodged an FIR (First Investigation Report) with CBI. As a result, RBI issued a lookout notice against Nirav Modi on 4 February 2018. Three days later, PNB filed another complaint with the RBI against Gitanjali Group companies, promoted by Mehul Choksi, for

₹65 crore worth of LOU liabilities. On 9 February 2018, an FIR was filed against these companies with the CBI. On 13 February 2018, PNB registered a fresh FIR with the CBI and filed a complaint with the Enforcement Directorate (ED). The next day, the bank informed the stock exchanges about the scam. Immediately, the ED conducted raids at 17 locations and attached properties worth ₹5,100 crore. The passports of Modi and Choksi were suspended by The Ministry of External Affairs while the CBI sought Interpol's assistance. On 17 February 2018, a former PNB employee, allegedly a key figure in the fraud, was arrested by the CBI. Two other employees were also arrested in connection with the fraud. In response to the incident, on 23 February 2018, the ICAI (Institute of Chartered Accountants of India), functioning under the Ministry of Corporate Affairs, established a committee to investigate the factors leading to the fraud and propose corrective measures. On the money laundering grounds, a red corner notice had been issued by Interpol against Nirav Modi, on 2 June 2018. Twenty-three days later, the ED was seeking Nirav Modi's extradition from a special court in Mumbai. On 3 August 2018, UK authorities are requested by the Indian government for the custody of Nirav Modi. After a wait of five months, on 27 December 2018, UK officials confirmed that Nirav Modi was residing in their country (Chronology of Nirav Modi's Case, 2019).

On 14 August 2018, the government dismissed Usha Ananthasubramanian from her position as Allahabad Bank MD and CEO. Ananthasubramanian had previously served as the of PNB's MD and CEO was named in the CBI charge sheet for her alleged involvement in the Rs. 140-billion fraud through fake Letters of Undertaking (LoUs) in collaboration with certain PNB employees. She was accused of failing to exercise proper control over PNB's operations during her tenure as managing director, which allowed the fraud to take place through the misuse of the international payment gateway SWIFT at the Brady House branch of PNB. Ananthasubramanian had held leadership positions in PNB during two separate periods. Having held the position of bank head between August 2015 and May 2017, later she transferred to Allahabad Bank. Prior to that, she worked as an executive director at PNB between July 2011 and November 2013 (Gakaar, 2017). On 1 October 2018, the ED acted by attaching assets worth Rs. 637 crores belonging to Nirav Modi and his family. These assets were in India as well as four other countries (Garg, 2018). Additionally, on 6 March 2019, the RBI fined at least 19 lenders, including prominent banks like ICICI Bank and SBI, for failing to comply with its guidelines on the use of the global payment network SWIFT, which had been misused by the perpetrators of the fraud. Senior officials of Allahabad Bank, Axis Bank and Bank of India were interrogated by CBI as part of its investigation into the scam. Arundhati Bhattacharya, the former chairman of SBI and the current chairman of SWIFT India, emphasised in an interview that maintaining vigilance and suspicion is crucial for preventing fraud, as it is when trust levels are high that people become vulnerable. She highlighted the need for bankers to remain focused and attentive to prevent such incidents. Nirav Modi was taken into custody on 19 March 2019 and held at Wandsworth prison in southwest London in response to a request by the ED for his extradition to India.

## Market Reactions

In June 2017, a few months before the fraud was detected, the bank launched 'Mission Parivartan' as a transformational exercise, highlighting the 10 most important areas to enhance profitability productivity and efficiency in the making of 'Future Ready Bank'. As of 31 March 2018, the bank had over 80 million customers, 6,938 branches, with 9,668 ATMs as declared in its annual report 2017–2018 and claimed that it reached the milestones of Rs. 10 trillion from domestic business operations. For the financial year, the operating profit was Rs. 10,294 crores. During the last quarter of FY 2018, the bank clocked a profit of Rs. 343.40 crore. Its CASA (current account and savings account) deposits have increased to Rs. 263,247 crores. Operating profit for FY18 stood at rupees 10,294 crores. The cost of funds has been reduced from 4.60% in FY 2017 to 4.31% in FY 2018. The Bank's gross Non-Performing Asset (NPA) has increased to Rs. 86,620 crores as compared to the previous financial year' figure of Rs. 55,370 crores as of 31 March 2017. In the financial year 2018, the bank recorded a significant net loss of Rs. 12,283 crores. This loss was primarily attributed to several factors, including the need to create higher provisions for NPAs, mark-to-market losses in the treasury portfolio, and provisions related to the fraud that took place. These combined elements placed a substantial burden on the bank's financial performance during that period. The creation of provisions for NPAs, losses in the treasury portfolio due to market fluctuations, and the need for provisions to address the impact of the fraud were the primary contributors to the reported net loss (for more details see the PNB Annual Report, 2017–2018 available at [https://www.pnbindia.in/document/annual-report/PNB%20Annual%20Report%202017-18%20\(Full%20Version\).pdf](https://www.pnbindia.in/document/annual-report/PNB%20Annual%20Report%202017-18%20(Full%20Version).pdf)). The profit and loss account of the company is self-explanatory in exhibiting the effect of scam (see Annexure 1).

From the MD and CEO's Desk that is part of the annual report, 2017–2018 of the banks, the incumbent managing director and CEO, Mr Sunil Mehta wrote a message while addressing the shareholders that,

The occurrence at the Mumbai branch of Brady House was an unfortunate incident that occurred due to the actions of a small number of employees in that specific branch. Once the incident was brought to attention, the Bank promptly responded by notifying regulatory authorities and law enforcement agencies. Additionally, they informed their fellow bankers about the situation and to initiate suitable internal measures to avoid similar kind of frauds in the future.

The last three consecutive quarters after the Rs. 14,000 crore one-off was tumultuous for the PNB. During the fiscal year 2018–2019, PNB encountered challenging financial results. The PNB recorded a net loss of Rs. 940 crores in the first quarter and a net loss of Rs. 4,532 crores in the second quarter. However, there was a significant improvement in the third quarter, as PNB posted a net profit of Rs. 247 crores for the period ending on 31 December 2018.

The bank's positive performance in the third quarter was attributed to aggressive recoveries and a substantial reduction in NPA slippages. The bank's efforts in recovering bad loans and the effective management of NPAs contributed to the



improved financial outcome. These results indicate that PNB made progress in mitigating losses and stabilising its financial position, showcasing the bank's commitment to recovering and managing its loan portfolio. (Business Line, Page1, Volume 26, Number 31 dated 6 February 2019). Sunil Mehta, Managing Director and CEO, PNB quoted in his interview to Business Line that,

After facing a significant setback, we have successfully recovered and regained our strength. The isolated incident involving a substantial amount (Rs. 14,000 crore) was undoubtedly the most challenging phase in the bank's history. However, we have now fully accounted for and addressed the impact of this incident. We have made provisions covering the entire amount, ensuring that the financial repercussions have been appropriately absorbed.

PNB lost 9.8% soon after the fraudulent transactions were reported by the bank. The Nifty PSU Bank index lost 4.8%, and the Nifty Bank index declined 1.4%. Amid heavy sell-off by the Investors and negative sentiment further damaged to the PNB counter. The movement in the share prices of the bank from the month of February 2018 to the month of April 2019 is exhibited in Annexure 2.

PNB is expected to face ongoing challenges with its capital position, which may result in limited loan growth. Additionally, other operational metrics are likely to exhibit weakness. However, it is worth noting that PNB demonstrated notable recovery and upgrades in FY19, which are crucial for improving asset quality ratios and enhancing earnings in FY20. These efforts are vital for the bank's overall performance and financial well-being.

Prabhudas Lilladher, a brokerage firm, said in a report published in Economic Times on 26 June 2019.

## **The Red Flags: Governance Issues at The Bank**

The PNB episode, which has unfolded over several years, has exposed various vulnerabilities within the bank. In an interview with CNBC-TV18, the PNB fraud was commented by Raghuram Rajan, former RBI governor, stating that any policy implementation has both positive and negative consequences. He emphasised the need to thoroughly investigate how the PNB scam occurred and identify the lapses that allowed it to take place. Rajan also raised questions about the appointment of board members at PNB and the role they played in enabling the scam. He highlighted the importance of serious consideration for governance initiatives for public sector banks. Rajan further stated that if the RBI had been aware of the fraudulent activities at the time, it would have taken decisive action to prevent them. He described the PNB scam as something that occurred outside the usual reporting and oversight mechanisms. Since February 2018, Nirav Modi and the other individuals implicated in the scam have been wanted by both the Interpol and the judicial authorities of India. They are facing a range of charges, like corruption, criminal conspiracy, cheating, criminal breach of trust and dishonesty

along with money laundering. These serious allegations highlight the gravity of their alleged involvement in fraudulent activities. The pursuit of justice continues as authorities work to apprehend and bring these individuals to face the legal consequences of their actions.

Whistleblowing played a critical role in shedding light on the PNB scam involving Nirav Modi. In this high-profile case, whistleblowing was notably absent, which contributed to the prolonged duration of the fraud and its massive financial impact. Whistleblowers are individuals who report illegal or unethical activities within an organisation, and they can play a crucial role in uncovering fraud, corruption, and misconduct (Mehrotra et al. 2019). Had there been a whistleblower within PNB or one of the other organisations involved, they could have potentially alerted authorities or internal investigators to the irregularities much earlier. This could have led to a quicker response and prevented the scam from escalating to the extent that it did. Whistleblowers often provide vital information that can trigger investigations, internal audits, or regulatory actions. In the context of the PNB scam, a whistleblower could have exposed the issuance of fraudulent letters of undertaking (LoUs) and other irregularities in the banking system, prompting immediate corrective action. Additionally, the threat of whistleblowers can serve as a deterrent to potential wrongdoers within an organisation, promoting a culture of transparency and ethical behaviour.

This scam raises questions on the effectiveness of the system and puts the various parties accountable for such fraud under the scanner. It reflects a weak institutionalisation of the whistleblowing mechanism as this scam was under the earth for more than seven years and surprisingly, only after exposed by a whistle-blower.

The failure of regulators and auditors to detect irregularities in the PNB scandal involving Nirav Modi can be attributed to a range of factors. First, the complex financial transactions orchestrated by Nirav Modi, including fraudulent letters of undertaking (LoUs) and intricate banking channels across multiple countries, created a web of confusion that made it challenging for oversight bodies to uncover the irregularities. Additionally, collusion and insider involvement within PNB played a significant role, as some employees were complicit in issuing fraudulent LoUs. This insider collusion further complicated detection efforts. Lack of transparency in Modi's financial reporting, manipulation of records, and the presentation of fake documents to auditors added to the challenge. Weak internal controls within PNB, coupled with the cross-border nature of the scam, contributed to the failure. Regulatory oversight limitations, innovative fraud techniques, and the absence of whistleblower reports all played a role, highlighting the need for stronger regulatory measures, improved internal controls and better international cooperation to prevent such incidents in the future.

It is imperative to investigate the specific procedures that were compromised and identify how a small number of employees, in collaboration with clients, were able to manipulate such substantial sums of money without triggering any suspicion or detection measures. This investigation should focus on identifying the loopholes or weaknesses in the existing internal controls and oversight mechanisms that allowed this illicit activity to persist undetected for an extended

period. It should also examine any potential collusion, negligence or lack of monitoring that may have enabled the employees and clients to maintain control over the funds without raising any red flags. By thoroughly examining these aspects, the investigation can provide insights into the shortcomings in the bank's systems and protocols, allowing for necessary improvements and implementation of stricter measures to prevent similar incidents from occurring in the future. Does this scam expose the vulnerability of the Indian Banking system? Was such a scam even possible without the connivance of a large group of people? How did PNB fraud remain undetected?

### **Suggestions and Implications**

The PNB scandal involving Nirav Modi offered several vital lessons for the financial sector and regulatory authorities. First, it emphasised the critical need for robust internal controls within financial institutions to detect and prevent fraud. PNB's failure to uncover the fraudulent transactions for an extended period revealed weaknesses in its internal auditing and oversight mechanisms. Second, effective risk management and due diligence are essential in averting such scams. Financial institutions must continuously assess and manage operational, credit and compliance risks, especially with significant customers. Third, transparent, and timely reporting of irregularities is crucial to maintaining investor and depositor confidence. The delay in PNB's disclosure eroded trust and highlighted the importance of adhering to reporting guidelines. Fourth, regulatory authorities must maintain vigilance and rigorous oversight to prevent fraud and enforce compliance. Collaboration between banks and law enforcement agencies, protection for whistleblowers, international cooperation, public awareness and prioritising ethical banking practices round out the key lessons from this scandal, serving as a cautionary tale for the financial industry's integrity and stability.

Balancing profit maximisation with social responsibilities poses a nuanced challenge for financial institutions. These organisations are inherently profit-driven, striving to generate returns for shareholders and ensure their financial stability. However, they also bear a substantial ethical and social responsibility, given their pivotal role in shaping economic and societal dynamics. Profitability is essential for attracting investors, maintaining competitiveness and facilitating economic growth through financial services provision. Nonetheless, financial institutions must acknowledge the profound social implications of their actions, including wealth inequality and environmental impact. To navigate this complex terrain, they can adopt strategies such as ethical investments, financial inclusion initiatives, transparent reporting, regulatory compliance, community engagement, long-term perspective and stakeholder engagement. Striking the right balance not only safeguards their reputation but also contributes positively to the well-being of the communities they serve, aligning profit motives with social responsibility for sustained success.

## Conclusion

The present study on corporate governance failures like the PNB scandal has provided several important conclusions and insights as follows. This study emphasises the significance of robust internal controls within financial institutions and calls for more stringent mechanisms to detect and prevent fraudulent activities. The study underscores the importance of effective regulatory oversight, advocating for stronger regulatory frameworks and more proactive supervision. Additionally, the study has highlighted the role of insider collusion in such failures, necessitating mechanisms to identify and address insider threats and collusion. Cross-border risks in financial irregularities are recognised, emphasising the need for international cooperation in investigations. Encouraging whistleblowing and reporting of suspicious activities is crucial. The study also emphasises the need to foster a culture of transparency and protect whistleblowers. Weaknesses in audit and accounting practices are identified and leading to recommendations for more rigorous standards. Corporate governance reforms, risk assessments and global impact considerations. Lastly, the importance of customer protection and restitution in cases of financial fraud is underlined, calling for improved regulatory and legal frameworks.

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