

Corporate's unethical way of Return Gift? "ICICI-Videocon Loan Fraud Case"

Sunil Shivaji

PhD Scholar in Corporate Governance

MET's Institute of Management, Nashik 422003 Maharashtra sunilkhandbahale@gmail.com

+91(942)225-2466

Dr. Pachorkar Sachin Raghunath

Associate Professor, Department of MBA

MVPs K.B.T College of Engineering, Nashik 422222 Maharashtra sachinpachorkar@gmail.com

+91(982)284-0601

Abstract: ICICI-Videocon Loan Fraud Case has questioned over (i) the standards of corporate governance, (ii) ethical implementation of it, and (iii) SEBI's prompt measures against mis-governance. Rs3250 cr is a "Related Party" transaction between the borrower (Venugopal Dhoot), and the lender (Chanda Kochhar, ICICI former CEO) because of the common linkage of Dipak Kochhar (business friend of borrower and husband of lender). As per Accounting and Auditing Standards of Banking, it is violation of (i) Code of Conduct, (ii) Non-Disclosure, (iii) Related Party Transaction, and (iv) Conflict of Interest rules. And because of the linkages of globally celebrated leaders, their unethical practices, this fraud have highlighted the importance of personal values and morals in governance. This case study reveals the violation of the basic principle of corporate governance, failure to maintain transparency, responsibility, fairness, accountability, and balancing of stakeholder interest, with the facts-figures, and illustrations based on secondary data.

Keywords: Corporate Governance, fraud, ethics

Introduction

The Indian banking system has seen a number of high-profile scams in recent years, highlighting the need for better regulation and oversight in the sector. The most notable examples include;

- PNB-Nirav Modi Fraud (Rs11,400 cr)
- SBI-PNB-IDBI-BOB-Vijay Mallya Fraud (Rs9,432 cr)
- AB Scam (Rs2,363 cr)
- Seven banks including BOI, IOB, UBI, BOB, AB, OBC, BOM - Rotomac Pen Vikram Kothari fraud (Rs3,695 cr)
- SBI-PNB-BOI-IDBI-SB-UBI-UCO-CB-Kanishka Gold Fraud (Rs1000 cr)

- UBI-Dewan Housing Finance Corporation Limited(DHFL) Fraud (Rs35,000 cr)
- 28 banks including SBI-IDBI-ICICI-ABG Shipyard Limited Fraud (Rs23,000 cr)
- YB-Rana Kapoor-Gautam Thapar Fraud (Rs466.51 cr) Abbreviations used;

The root cause of these financial frauds in the Indian banking sector is often linked to governance failures. This include, weak internal controls and compliance systems, lack of proper oversight and supervision of bank officials, and a lack of accountability for wrongdoing. Furthermore, there is also a lack of transparency and integrity in the operations of the banking

sector, which makes it easier for fraud to occur and go undetected for long periods of time. Report (RBI), 34% of scams in the banking industry are on account of inside work due to poor lending practices (2022). In addition, speedy and timely measures by regulatory bodies such as RBI and SEBI is expected.

ICICI-Videocon Loan Fraud Case (Rs3250 cr), seen as “quid-pro-quo-deal” and or “corporateway of return gift” is another black chapter in the banking governance. This case study intends to zoom into before and aftermaths linked to explosive financial fraud, so as to examine where, when and what went wrong. This fraud is globally hot talk because of two reasons. (i) The bank which is linked to fraud, is one of the major private banks of India. (ii) The people who are linked to this fraud, are highly regarded leaders of their respective fields. The underneath causes of the wrongdoings are (i) mis-governance of bank, RBI and SEBI, and (ii) low personal values and morals of individuals involved in case.

Case Presentation:

ICICI-Videocon Loan fraud case

ICICI-Videocon Loan Fraud Case which came to light in 2018, involved a series of questionable loans and alleged financial irregularities by ICICI Banks, former CEO, Chanda Kochhar, and her husband, Deepak Kochhar, along with industrialist Venugopal Dhoot, Chairman of the Videocon Group. It was alleged that Dhoot had given loans worth Rs64 cr to NuPower Renewables, a company owned by Deepak Kochhar, in exchange for a loan of over Rs3,250 cr given to the Videocon Group by ICICI Bank. This raised concerns about potential conflicts of interest and violation of banking norms. The Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and the Central Bureau of Investigation (CBI) conducted investigations into the matter and found various violations of laws and regulations, leading to penalties and charges being filed against the individuals involved. The incident caused significant damage to ICICI bank reputation and also raised questions about the corporate governance practices of the bank.

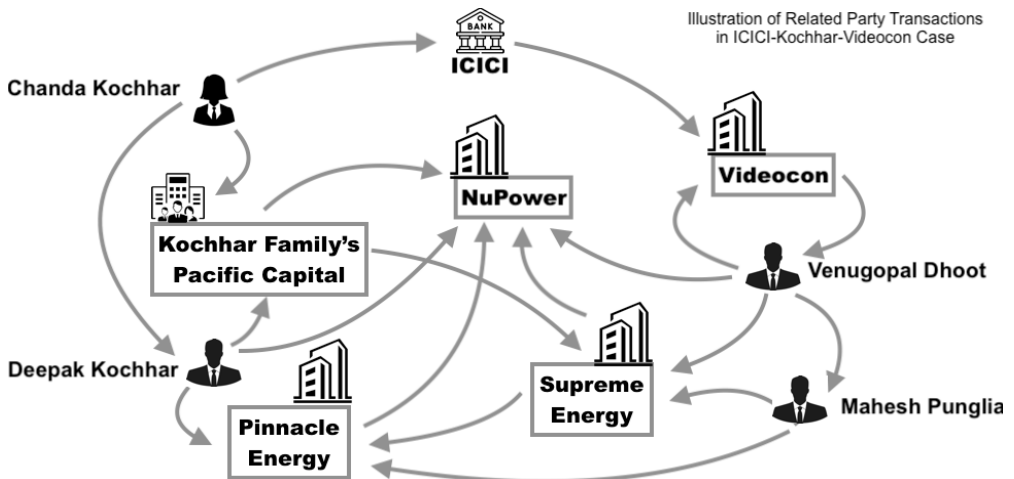


Figure-1: Illustration of Related Party Transactions

ICICI ex-CEO Chanda Kochhar was heading six different committees out of total nine while processing the loan to husband Dilip Kochhar's friend Venugopal Dhoot's Videocon group of companies.

Timeline leading to fraud case:

- December 2008, Kochhar Family (Dipak Kochhar, husband of ICICI CEO Chanda Kochhar, Deepak Kochhar's father and Chanda Kochhar's brother's wife) and Venugopal Dhoot (owner of Videocon Group) formed NuPower Renewables Pvt Ltd (NRPL) company with 50%-50% partnership.
- January 2009, Venugopal Dhoot resigned from NRPL by transferring his 29,996 shares to NRPL just for Rs2,49,960.
- March 2010, Supreme Energy Pvt Ltd (SEPL (99.9% owned by Venugopal Dhoot)) gave a loan of Rs64 cr to NRPL.
- By the end of March 2010, NRPL had 94.99% shares of SEPL (owned by Dhoot) and 4.99% shares of Kochhar Family.
- In November 2010, Venugopal Dhoot transferred 99.9% of his SEPL ownership by selling his 9,990 shares to his associate Mahesh Chandra Punglia.
- During September 29, 2012 to April 29, 2013, Mahesh Chandra Punglia transferred his ownership to Pinnacle Energy (PE) (a trust, whose president was Dipak Kochhar) at the cost of Rs9,00,000 only.
- April 2012, 6 months before the above deal, Chanda Kochhar (CEO of ICICI sanctioned the loan of Rs3250 cr to Videocon group (owned by Venugopal Dhoot).
- 2016 - Arvind Gupta, the whistleblower who exposed the fraud..
- In Jun 2017, ICICI declared the account of Videocon Group as non-performing asset(NPA) with outstanding of 86% i.e. Rs2810 crore.
- Mar 2018 - CBI filed a petition against Chanda Kochhar for alleged quid pro quo in granting loans to Videocon.
- May 2018 - ICICI Bank initiated the internal inquiry of the issue due to public pressure.
- Jun 2018 - Videocon sent to bankruptcy court after its failed telecom biz hit group finances.
- Oct 4, 2018: Chanda Kochhar resigned when SEBI initiated probe.
- January 2019 - Banks internal inquiry under former judge of supreme court B.N. Shrikrishna, allegedly found that Chanda Kochhar had violated disclosure norms on conflict of interest and her 2018 exit would not be treated as normal resignation but as dismissal.
- September 2020 - ED arrested Dilip Kochhar for inquiry.
- December 23, 2022 - CBI arrested Chanda Kochhar, her husband Dipak Kochhar, under sections of cheating, criminal conspiracy, and prevention of corruption act. FIR was lodged under the provision of the Indian Penal Code and the Prevention of Corruption Act.
- December 26, 2022 - CBI arrested Venugopal Dhoot, owner of Videocon group.

Illustration of the Timeline

NRPL Formation by VenugopalDhoot + Kochhar Family	Dec 2008	
	Jan 2009	Dhoot resigned from NRPL
SEPL loaned Rs64 cr to NRPL	Mar 2010	
	Nov 2010	Venugopal Dhoot sold SEPL to Mahesh Chandra Punglia
Mahesh Chandra Punglia sold SEPL to PE	Apr 2013	
	Apr 2012	ICICI sanction loan of Rs3250 cr to Videocon Group
Arvind Gupta exposed the fraud	2016	
	May 2018	ICICI initiated internal inquiry
ICICI declared Videocon NPA	Jun 2017	
	Mar 2018	CBI filed petition against ICICI CEO Chanda Kochhar
Videocon became bankrupt	Jun 2018	
	Oct 2018	Chanda Kochhar resigned
Chanda Kochhar Terminated by ICICI BoD	Jan 2019	
	Sept 2020	ED arrested Dilip Kochhar
CBI arrested Chanda Kochhar & Dipak Kochhar	Dec 23, 2022	
	Dec 26, 2022	CBI arrested Venugopal Dhoot

Concerns arise from the facts, those led to the fraud:

- Why Chanda Kochhar did not inform her relation with the borrower while (i) loan sanction and (ii) declaring it NPA?
- Why not the issues raised by the working directors or independent directors?
- Why it took “Outside Whistleblower” to expose wrongdoing, and not internally?

- Why BoD stood by showing “full faith in CEO” for over two months even it was aware of conflict of interest, related party transaction? Why it misguided stakeholder by saying, “the allegation are rumours to damage bank reputation.”?
- Internal inquiry by bank was started in May 2018, while Chanda Kochhar resigned in Oct 2018, Is it justifiable to remain in a power during inquiry?

- Why Internal inquiry report was only submitted to SEBI and not made public?
- Why it took two months to accept bank to respond to SEBI about violation of conflict of interest and non-disclosure?
- Why SEBI and RBI were not proactive and slow in taking measures?

ICICI-Videocon Loan Fraud's aftermath:

The fraud case has been logged at Bombay High Court and under process as of Jan, 2023.

- On Jan 10, 2023 Bombay High Court granted interim bail to Kochhar couple, however serious inquiry is processed by three investigation agencies, Central Bureau of Investigation (CBI), Enforcement Directorate (ED) and Serious Fraud Investigation Office (SFIO).
- Jan 11, 2023: HC granted interim bail to Kochhar couple.
- Jan 13, 2023: HC reserves order in bail plea by Venugopal Dhoot.
- Jan 15, 2023: HC included chargesheet of Section 409 of the Indian Penal Code as requested by CBI against Chanda Kochhar on the charge of criminal breach of trust by acting unlawfully and illegally as a bank official.

What is the take of accused and investigation agencies:

Venugopal Dhoot said, "I have no concern for or any connection with NRPL as I have already resigned and sold his holding with all due process."

NRPL's spokesperson said, "NRPL has no connection with ICICI bank loan process given to Venugopal Dhoot's Videocon group."

ICICI Bank said, "ICICI Bank has sanctioned its share of facilities aggregating approximately Rs3250 cr which was less than 10% of the total

aggregation of approximately Rs40,000 cr approved by the consortium of over 20 banks and FIs where State Bank of India was the facility agent (Lead)

sanctioned facilities to the Videocon group (Videocon Industries Ltd. and 12 of its subsidiaries/

associates as co-obligors) for a debt consolidation programme and for the group's oil and gas capital expenditure programme. The Information Memorandum (IM) was prepared by the Credit Committee of ICICI Bank chaired by the then Chairman of ICICI Bank (K V Kamath) and other working and many independent directors (ID). CEO Ms Chanda Kochhar was not the Chairperson of the committee."

CBI confirmed, "violation of the Banking Regulation Act, Reserve Bank of India's guidelines, and credit policy of the bank. As part of quid pro quo, Dhoot made an investment of Rs 64 crore in Nupower Renewables through Supreme Energy Pvt Ltd (SEPL), and transferred SEPL to Pinnacle Energy Trust managed by Deepak Kochhar through a circuitous route between 2010 and 2012."

A whistleblower, Arvind Gupta who had exposed the fraud said, "ICICI-Videocon Loan Fraud Case may be just the tip of the iceberg, many more beneficiaries, groups, inter-agency groups and multiple banks, coterie of officials will get exposed out of investigation.", He also doubted SEBI and RBI governance mechanism for their inability to act in speedy, timely and lawful manner against wrongdoings. He has also raised fresh allegations of ICICI-ESSAR roundtripping funds with NRPL, what he termed as "dirty banking."

Background story of the ICICI-Videocon Loan fraud case

There are three main characters accused in the scam Chanda Kochhar (ICICI Bank), Chanda Kochhar's husband Dipak Kochhar (NRPL, SEPL) and Venugopal Dhoot (Videocon Group) exposed by Arvind Gupta (whistleblower).

Bellow is the additional background information provided by the researchers with respect to the case study.

Profile of Chanda Kochhar

Chanda Kochhar, age 61, born on Nov 17th, 1961 at Jodhpur, Rajasthan. She lost her father at age 11. Her schooling was from St. Angela Sophia School, Jaipur. She graduated in Commerce from Jai Hind College, Mumbai (1982). She is gold medalist in cost accounting, did her management degree from Jamnalal Bajaj Institute of Mumbai. She has been a global public figure and role model especially for women. Kochhar is a member of the India–Russia Business Leaders Forum and the US-India CEO Forum. Kochhar is the chairperson of the board of governors at IIT Vadodara. She is also on the boards of the National Institute of Securities Markets and Institute of International Finance. Kochhar has been a member of the Prime Minister’s Council on Trade and Industry. She was co-chair of the World Economic Forum’s Annual Meeting (2011). Kochhar received an honorary doctorate from Carleton University, Canada for her leadership contribution in the financial sector (2014). She bagged many national and international awards like “Retail Banker of the Year” by the Asian Banker (2004),

“Business Woman of the Year” by The Economic Times (2005), “Rising Star Award” for Global Awards by Retail Banker International (2006), ASSOCHAM Ladies League Mumbai Women of the Decade Achievers Award (2014), “ABLF Women of Power India Award (2011)” to name a few. And last but not least, the third highest civilian award the Padma Bhushan from Government of India was given to Chanda Kochhar (2011).

Chanda Kochhar has been consistently climbing the ladder of her position in Fortune’s list of “Most Powerful Women in Business” from 47th (2005), 37th (2006), 33rd (2007), 25th (2008), 20th (2009). Kochhar has also consistently figured in Fortune’s list of “Most Powerful Women in Business” since 2005. 20th (2009),

10th (2010). She featured in Business Today’s list of the “Most Powerful Women – Hall of Fame (2011)”. She also featured in the “50 Most Influential People in Global Finance (2011), most powerful businesswoman in India in Forbes’ list of ‘The World’s 100 Most Powerful Women (2013), ranked 2nd in India’s most powerful women (2014), selected Time magazine’s list of the 100 Most Influential People in the World (2015), ranked 40th in India Today’s ‘High and Mighty Power List and 10th in The World’s Most Powerful Women in Finance (2016)”, Chanda Kochhar was featured in Business World magazine’s ‘BW’s Most Influential Women (2017).

Profile of ICICI Bank

Industrial Credit and Investment Corporation of India (ICICI) Bank Limited, established (1994), headquartered at Mumbai is the top and largest Indian Private Bank and second biggest after State bank of India (SBI) a Government Bank. It offers a wide range of banking products and financial services for corporate and retail customers through a variety of delivery channels and specialised subsidiaries in the areas of investment banking, life,

non-life insurance, venture capital and asset management. ICICI has a network of 5,275 branches and 15,589 ATMs across India and has a presence in 17 countries. The bank has subsidiaries in the United Kingdom and Canada; branches in the United States, Singapore, Bahrain, Hong Kong, Qatar, Oman, Dubai International Finance Centre, China and South Africa] as well as representative offices in the United Arab Emirates, Bangladesh, Malaysia and Indonesia. The company’s UK subsidiary has also established branches in Belgium and Germany.

It is important to note that, under Chanda Kochhar’s leadership, ICICI Bank won the “Best Retail Bank in India” award (2001), (2003), (2004) and (2005) and “Excellence in Retail Banking Award” (2002). However, ICICI was struggling to stay on its financial reputation, post 2011 till Chanda Kochhar’s termination.

YEARLY RESULTS OF ICICI BANK (In Rs. Cr.)	MAR '17	MAR '16	MAR '15	MAR '14	MAR '13
i) Gross NPA	42,551.54	26,720.93	15,094.69	10,505.84	9,607.75
ii) Net NPA	25,451.03	13,296.75	6,255.53	3,297.96	2,230.56
i) % of Gross NPA	7.89	5.21	3.78	3.03	3.22
ii) % of Net NPA	4.89	2.67	1.61	0.97	0.77
Return on Assets %	1.10	1.49	1.86	1.78	1.70

YEARLY RESULTS OF ICICI BANK (In Rs. Cr.)	MAR '22	MAR '21	MAR '20	MAR '19	MAR '18
i) Gross NPA	33,919.52	41,373.42	41,409.16	46,291.63	54,062.51
ii) Net NPA	6,960.89	9,180.20	10,113.86	13,577.43	27,886.27
i) % of Gross NPA	3.60	4.96	5.53	6.70	8.84
ii) % of Net NPA	0.76	1.14	1.41	2.06	4.77
Return on Assets %	1.84	1.42	0.81	0.39	0.87

Profit & Loss													PRODUCT SEGMENTS	
Consolidated Figures in Rs. Crores / View Standalone														
	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	TTM	
Revenue	30,081	37,995	44,885	49,479	54,964	59,294	60,940	62,162	71,982	84,836	89,163	95,407	104,323	
Interest	19,343	25,013	28,285	29,711	32,318	33,996	34,836	34,262	39,178	44,666	42,659	41,167	44,092	
Expenses +	33,126	30,293	31,684	32,852	38,766	52,252	63,841	72,806	83,775	85,361	91,309	80,798	82,719	
Financing Profit	-22,387	-17,311	-15,085	-13,084	-16,120	-26,955	-37,737	-44,906	-50,971	-45,190	-44,805	-26,558	-22,489	
Financing Margin %	-74%	-46%	-34%	-26%	-29%	-45%	-62%	-72%	-71%	-53%	-50%	-28%	-22%	
Other Income +	31,513	28,663	29,320	30,085	35,252	42,102	52,458	56,807	59,325	64,950	72,030	62,129	63,484	
Depreciation	740	671	625	719	798	843	912	922	946	1,171	1,340	1,330	0	
Profit before tax	8,387	10,680	13,610	16,282	18,334	14,304	13,809	10,978	7,408	18,589	25,884	34,241	40,995	
Tax %	25%	26%	26%	28%	29%	24%	18%	17%	23%	40%	22%	25%		
Net Profit	6,318	7,938	10,130	11,677	12,942	10,927	11,340	9,100	5,689	11,225	20,364	26,538	31,108	
EPS in Rs	9.62	12.06	15.14	17.38	19.20	15.92	15.90	12.00	6.60	14.78	26.58	36.14	42.63	
Dividend Payout %	26%	25%	24%	24%	24%	29%	14%	12%	15%	-0%	8%	14%		

Timeline of Chanda Kochhar with ICICI Bank

- 1984 - Chanda Kochhar joined ICICI as a management trainee when ICICI was a retail sector company.
- 1989 - ICICI decided to establish a bank in the retail sector.
- 1990s - Chanda Kochhar was instrumental in establishing ICICI bank.
- 1994 - She became Assistant General Manager (AGM) of ICICI Bank.
- 1996 - She was promoted as Deputy General Manager (DGM) of ICICI bank.
- 1996 - She became Head of Infrastructure Industry group of ICICI in power telecommand transportation.
- 2006 - She was promoted as Deputy Managing Director of ICICI Bank.
- 2007 - She was promoted as Chief Financial Officer (CFO) and joint Managing Director (MD) of ICICI Bank.
- 2009 - She was appointed as Chief Executive Officer (CEO) and Managing Director (MD) of ICICI bank.
- Oct, 2018 - She resigned from CEO and MD positions due to board pressure.

- Jan, 2019 - ICICI Bank board terminated her from all positions denying retirement benefits of ICICI after justice Shri Krishna reported her guilty.

Profile of Deepak Kochhar

Deepak Virendra Kochhar is the co-founder and chief executive officer of NuPower Renewable Private Limited (NRPL), formation (2008). NRPL was started as a joint venture (JV) between Videocon Group's Venugopal Dhoot family, the Kochhars and Advani families. Mahesh Advani is the brother of Chanda Kochhar. When the company was established, Chanda Kochhar was the CFO and Joint MD at ICICI Bank. Before the setting up of NuPower, Deepak was a financial services entrepreneur. He has been a director of NuPower Renewables Pvt Ltd since December 24, 2008. He studied Masters in Finance from the Jamnalal Bajaj Institute of Management Studies, Mumbai University. And during his studies at Jamnalal Bajaj Institute of Management Studies, he met Chanda Advani (Chanda Kochhar's maiden name). Deepak is also an alumnus of Harvard Business School - Graduate of the Advanced Management Program (AMP). There is not much about him in the public domain dating before 2008 other than his company Pacific Capital Services Private Limited. The Pacific Capital Services was then owned 90 per cent by Neelam Advani, wife of Mahesh Advani, and 10 per cent by Virendra Kochhar, Deepak's father.

Profile of Venugopal Dhoot

Venugopal Dhoot, age 71, born on 30 September 1951, is the founder, chairman, CEO, and managing director of Videocon. He holds a degree in Electrical Engineering from Pune University. He is an Indian multinational conglomerate and Indian business tycoon. Videocon focuses on manufacturing consumer electronics and home appliances. He also holds the directorships of Videocon Telecommunications Limited, Hindustan Oil Ventures Limited, Videocon Energy Limited, Jumbo Techno Services Private Limited, and

Senior Consulting Private Limited. Videocon Group became popular after investing in the colour TV business (1985). Venugopal Dhoot became the managing director of Videocon Industries Limited (2005). He was appointed as the President of the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and the Electronic Industries Association of Marathwada (2008). He was ranked 36th in the 'Top 50 Power List' of the year (2009). He was the 61st richest person in India according to Forbes (2015).

Story of the Rise and Fall of Videocon

The foundation of Videocon Industries was laid by Nandlal Dhoot who was the founder of Videocon Corporation and Videocon Electronics. Nandlal Madhavrao Dhoot started his business with a sugar mill and trading with his three sons Rajkumar, Venugopal and Pradeepkumar. After graduation, Venugopal Dhoot started an electronics business in collaboration with Japan based Toshiba to manufacture colour TV with a target of one lakh of high quality TV sets per year. He then expanded his electronics business into home appliances with air conditioners, refrigerators, fridge, washing machines etc. Under the leadership of Venugopal Dhoot, videocon had acquired good market share. Taking inspiration from Reliance group of Industries, Videocon group too aspired to diversify itself in capital intensive business of oil and gas industry. He raised capital by taking big loans heavily and investing profits from other businesses into new oil and gas businesses.

Venugopal envisioned 80% future revenue coming from oil and gas and rest from the other vertices. The results were quite good with his decided plans. However, during the telecom boom period, Venugopal was tempted to enter into the telecom business and procured licences for 2G spectrum. However Videocon lost 21 of its licences out of total 22, in an exposed scam of 2G spectrum. Soon, Venugopal exited from telecom and tried his luck in Direct-to-Home (DTH) business in vain, so he sold D2H dish tv business. Meanwhile, the oil and gas industry also

started trembling, so he tried to repay his loans from selling his ownership of the gas field. While Videocon was busy managing his loan repayments, Videocon's rival brands like Sony, LG, Samsung grabbed the opportunity successfully of making their hold of electronics business in the Indian market. This brought down the overall market share, brand equity and ultimately the profits of Videocon conglomerates in multiple businesses. Increasing liabilities and loan interests, Videocon started defaulting which forced Venugopal to accept insolvency declared by the National Company Law Appellate Tribunal (NCLAT). Out of many bank loans, ICICI bank alone had to recover 17,000 cr from Videocon group. Anil Agarwal of Twin Star Technologies (TSL) proposed to acquire Videocon for

Rs2692 cr in NCLAT's bidding, which didn't go through. All accounts of Videocon became non-performing assets (NPA). That means all lenders who gave money to Videocon were in big trouble.

Profile of Arvind Gupta

Arvind Gupta is 65, PhD in economics, consultant by profession, is still bachelor, is a small investor in Videocon and ICICI as well, and has been fighting several such cases for the last 40 years. Arvind Gupta, was suspicious about the transactions since 2009-10, screened company financial documents rigorously, wrote letter to PM in 2016 for high level investigation against fraudulent loan sanction process of ICICI to Videocon group as a matter of favouritism because of the business relations of ICICI CEO Chanda Kochhar's family with Venugopal Dhoot, owner of Videocon group in interest of safeguarding private banking industry. He is a whistleblower of the ICICI-Videocon loan fraud case. *Whistleblower is a person who exposes wrongdoing of an institution.* The act called "Whistleblower protection Act" to protect whistleblowers was proposed in parliament however, it was not passed in parliament.

Governance norms related to fraud case:

Accounting and Auditing Standards of ICICI Bank

ICICI Bank claims to have a well-structured and standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal, credit approvals and monitoring as below:

- The Credit Risk Management Group (CRMG), which is independent of the businessgroups of the Bank, evaluates and assigns a credit rating to the credit proposals.
- A borrower's credit rating is a vital input for the credit approval process. Every proposal for a financing facility is prepared by the relevant business unit and reviewed and rated by the CRMG before being submitted for approval to the appropriate authority.
- The Bank's credit approval authorization framework is laid down by the Board of Directors
- The authorisation framework is risk based with lower rated borrowers and/or larger exposures being escalated to higher committees. The larger exposures are approved by the Credit Committee of the Board
- The majority of Credit Committee members are independent directors of the Bank.
- The Chairman of the Credit Committee, till as late as June 2015, was always anon-Executive Director.
- The functioning of the Credit Committee is closely overseen by the Board of the Bank. The proceedings of the Credit Committee are presented to the Board on a periodic basis and the Board has clear supervision and control on the decisions ofthe Credit Committee.

Disclosure Rules on (i) Related Party Transaction, and (ii) Conflict Of Interest

Related Party Transaction:

Banks are required to disclose any related party transactions to their regulatory authorities and obtain prior approval before entering into such transactions. This is done to ensure that the

transactions are conducted on an arm's length basis, and that the interests of the bank and its depositors are not compromised. Violation of related party transaction rules in banking refers to a situation where a bank enters into a transaction with a related party, and fails to disclose the transaction or obtain prior approval from the appropriate regulatory authorities. A related party can include individuals or entities that have a close relationship with the bank, such as its directors, officers, controlling shareholders, or their affiliates.

Conflict of Interest:

It is important for banks to have policies and procedures in place to identify, disclose, and manage conflicts of interest to ensure that the bank's interests and those of its customers are protected. This includes ensuring that bank directors, officers, employees, and controlling shareholders do not use their positions for personal gain, and that they do not participate in decisions in which they have a financial interest.

Related party transaction can give rise to a conflict of interest as the parties involved in the transaction may have competing interests or loyalties that could interfere with their ability to make unbiased and objective decisions.

The framework for dealing with financial frauds

In order to prevent financial frauds and ensure trust of the consumers in the Indian banking sector, the government, regulator and banks have to take several measures for transparency and integrity in the operations of the banking sector.

- (i) Firstly, strict laws and regulations must be put in place and enforced to prevent fraud and protect the interests of consumers. This can be done by making the laws more stringent, to ensure that fraudsters are punished severely.
- (ii) Secondly, banks must improve their internal controls and compliance systems, to detect the potential risk of fraud.
- (iii) Thirdly, banks must ensure that fraud is reported quickly by incentivising reporting mechanism.

Based on three fold approach of (i) Prevention, (ii) Early Detection, and (iii) Reporting of fraud on time, Internal Working Group (IWG) of the Reserve Bank of India (RBI), had proposed comprehensive framework for fraud-risk management as bellow;

- Early Warning Signals (EWS) and Red Flagged Accounts (RFA)
- Early Detection and Reporting
- Annual Review
- Staff Empowerment
- Role of Auditors
- Incentive for Prompt Reporting
- Staff Accountability
- Failing Complaints with Law Enforcement Agencies

Furthermore, the most crucial part is the execution of designed policies. The government should also play an active role in monitoring the banking sector, and in providing adequate resources to the regulator so that they can perform their duties effectively.

Suggestions to avoid such frauds in future:

- In highly interconnected business world scenario, if related party transaction is inevitable then, there must be locking period of considerable amount of time. e.g. 5 years.

Explanation:

In this case, Loan from Venugopal Dhoot to Dipak Kochar's NRPL, Transfer of SRPL From Mahesh Punglia to Dipak Kochar of PE, and Loan from Chanda Kochhar (ICICI) to Venugopal Dhoot could have been avoided.

- Despite of strong rules and regulations, it is human factor which seems manipulating the system smartly. It is found that, almost all banking fraud cases have some sort of personal human connection or influence involved. Hence, it is suggested to design an integrated mechanism of (i) Information Technology (IT) governance and (ii) existing governance together.

Explanation

The predictive modelling through Artificial Intelligence (AI) and Machine Learning (ML) can be done. The technology can be used effectively for monitoring financial web of transactions in real time (RT). One way in which AI and ML can be used to prevent financial frauds is through the use of predictive modelling. Predictive modelling involves the use of historical data to identify patterns and trends that are indicative of fraudulent behaviour.

This can allow banks to flag suspicious transactions and accounts for further investigation and prevent the fraud from occurring. Another way in which AI and ML can be used to prevent financial fraud is through the use of anomaly detection.

Anomaly detection involves identifying transactions or activities that deviate from the normal patterns and behaviours. This can include things like large or unusual transactions, or transactions that take place outside of a customer's usual geographical location. Banks can use this information to flag suspicious activity and prevent the fraud from occurring. AI/ML technologies can help to identify and detect fraudulent activity, as well as to predict and prevent future frauds from occurring. By analysing data from multiple sources, they can help to identify patterns and anomalies that may indicate fraudulent activity and flag suspicious activity, ultimately reducing the risk of financial frauds in the Indian banking system.

Conclusion

Financial frauds in the Indian banking sector have had a detrimental effect on the stability and integrity of the banking system. The root cause of these frauds is often linked to governance failures such as weak internal controls, lack of oversight and accountability, and lack of transparency and integrity in the sector. At first place, ICICI-Videocon Loan Fraud Case is a failure of corporate governance due to the violation of Code of Conduct,

Non-Disclosure, Related Party Transactions, and Conflict of Interest rule. Secondly, the personal interest and influence of CEO in this fraud case can not be overlooked. Third, the banking governance must procure non-disclosures of (i) all strategic management including (ii) head of the institution, and of (iii) each committee member and of (iv) all the officials involved in loan sanction process. And fourth, it is hard to believe that no one noticed wrongdoings until outsider whistleblower Arving Gupta, which have developed a scope to incentivise internal reporting and improve whistleblower policy. And looking at the 6 years of delayed action even after Arvind Gupta's complaint, fifth most important thing is that, Government, RBI, and SEBI must ensure timely, speedy, and strict lawful measures in case of wrongdoing to prevent the possible banking frauds, ensure the maintain basic principles of governance by maintaining transparency, responsibility, fairness, accountability, and balancing of interest of all stakeholders.

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