

19th January 2003 Island.

More slush on Pramuka

Predictably, the issue over the Central Bank decision to liquidate the Pramuka Savings and Development Bank has been taken to court by depositors who validly claim that they have a legitimate interest in this matter. Last week, the bank's former chairman and incumbent CEO, Mr. Rohan Perera who is now in England, issued a lengthy statement defending himself and his bank, faulting the Central Bank for its actions and making some very serious allegations including one where he accused two VVIPs, among them a Central Bank official, soliciting a Rs. 50 million gratification to permit the re-opening of Pramuka as a commercial bank with a generous Central Bank line of credit.

We report in our business pages today that the Pramuka board has recalled Perera to whom it had earlier granted six months leave even as the bank's operations had been suspended and an intensive examination of its affairs was proceeding. While Perera himself would have wished to get away from the heat, the Pramuka directors had done no credit to themselves by approving his leave application. It is to be hoped that Perera will respond to his board's summons and return to Sri Lanka early and help resolve a matter that has not only placed depositors, shareholders, employees and other stakeholders of his bank in great difficulty, but has also created a serious crisis of confidence among those who do business with some other banking institutions. Given matters that are surfacing now, many people will wonder whether their money is safe in some banks that continue to solicit and accept public deposits.

There is no doubt that many depositors have been induced by a high interest carrot to put their money into Pramuka. It is axiomatic in these matters that "higher the risk, greater the reward" and those seeking the benefit for themselves of better than market interest have now been called upon to pay the price of their imprudence. They would, certainly, be happy the Central Bank bailed out Pramuka and protected at least their capital if not their interest. This has been done before, as we have previously said in these columns, in the case of Mercantile Credit Ltd., not a bank but a finance company, and as far as we know depositors did not suffer. What we do not know, and the public have a right to know, is what that cost the taxpayer. Any Central Bank assistance is from public coffers and it will be relevant particularly at this time for people to know whether that failed finance company had the resources to meet its obligations and if not, how much public funds were utilized to discharge them.

The Central Bank rightly responded to Perera's fifty million rupee bribery allegation and said that if such a solicitation was made, it was his duty to refer it to the Bribery Commission. In any event, the bank itself has passed on the complaint to the proper authority and it is to be hoped that a proper investigation will follow. Whether anything will come of it or not remains to be seen. Remember Perera's allegation referred to "two VVIPs" and he has not even hinted who the second person involved might be. The country has had some sorry experience about such allegations with the president herself, early in her tenure alleging publicly that a business concern had offered her a huge bribe but doing nothing more about it. Many years later she named a Singapore company still doing business here as the culprit but nothing resulted from her revelations. It is unlikely that the Bribery Commission follows up public allegations in the absence of a formal complaint. It is improbable if not impossible that it would have sought a statement from the president, especially at a time she also controlled the government.

However there are many other matters dealt with in Perera's long statement that requires a detailed response from the Central Bank which has not yet been forthcoming. Now that the whole business has been taken to court, it may well be argued that at least the material presented by the depositors to the Appeal Court will be responded to in that forum. Among the matters claimed there is that as far back as July 1999, the Central Bank had initiated a statutory on-site examination of Pramuka's affairs and gross violations of provisions of the Banking Act had been detected. The depositors claim that in August the same year, the Central Bank's Director of Bank Supervision had warned that if Pramuka continued to grant loans and advances without proper evaluation, "the failure of the bank may be inevitable." Yet in August 2000 Pramuka was included in a gazetted list of banks in which the Public Trustee may place trust funds and this had been repeated as recently as June last year. How come?

Pramuka's 'gold certificates' now revealed should certainly send shivers down the spines of culpable public officials. Perera has said that these were gifts "given in appreciation of large deposits." Nobody will quarrel if a private individual placing his own money in a bank, even a dicey one where he is risking his capital, is so rewarded. But it is another matter for public officials who are custodians of other people's money placing such deposits and getting a cut themselves. That is a matter that must be very carefully investigated and those responsible brought to book. Large deposits have been made in Pramuka not out of private pockets but of custodial funds while the "gifts" presumably went into the pockets of the individuals concerned. Bankers like to talk of "innovative instruments." These seem to have been sweeteners offered to attract business and those who dined off that table must certainly be held accountable.

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